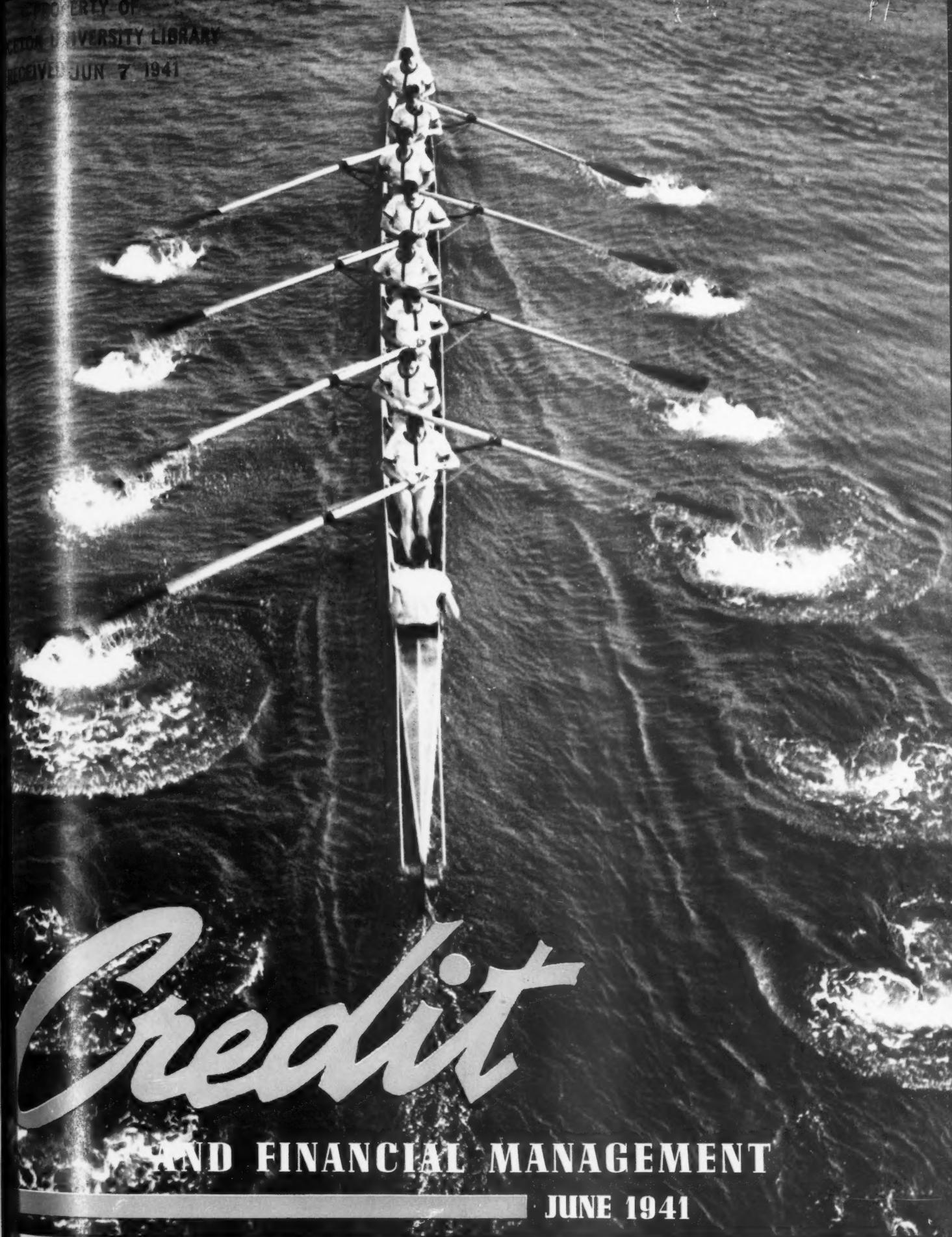


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Credit

AND FINANCIAL MANAGEMENT

JUNE 1941

New Orleans Convention — Pages 6-19-21-24, 26, 28, 34, 36, 38, 42.

Commercial Credit Analysis — 9 — Why Business Failures — 12.

Some Don'ts in Collection Work — 16 — Salaries for Referees — 42.

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On the writing, intending _____
[PLEASE ANSWER]

ASSETS	Dollars
Cash (on Hand and in Bank)	
Accounts Receivable	
(Amount past due \$_____)	
(Amount Sold or Pledged \$_____)	
Notes and Trade Acceptances Receivable	
(Amount Sold or Pledged \$_____)	
Merchandise not on consignment or conditional sale (How valued: at cost <input type="checkbox"/> or "at cost or market, whichever is lower" <input type="checkbox"/>)	
Other current assets (describe): _____ _____	
TOTAL CURRENT ASSETS	
Land and buildings (present depreciated value)	
Machinery, fixtures and other equipment (present depreciated value)	

A Complete View of the Assets

- How Much Past Due
- Reserve for Bad Accounts
- How Much Sold or Pledged
- How Merchandise Is Valued
- Are Land, Buildings, Machinery, Equipment Figured on Proper Depreciated Value

LIABILITIES	Dollars
Accounts payable for merchandise, etc. past due " " " " " not "	
Acceptances and notes payable for merchandise	
Owing to finance companies, banks, or others (Secured by \$_____ of accounts pledged, assigned or sold)	
(Secured by \$_____ of notes or accept- ances pledged or assigned)	
(Secured by \$_____ of merchandise in- ventory pledged or assigned)	
Notes to banks (without security)	
Payable to partners, officers, directors, or stockholders	
Payable to others	
Taxes, interest, rental, payrolls, etc., accrued	
Unpaid city and/or state sales taxes, accrued	
Other current liabilities (describe): _____ _____	
TOTAL CURRENT	
Mortgage <input type="checkbox"/>	

The Whole Story on Liabilities

- Are Accounts Payable Current
- Do They Pay by Notes or Acceptances
- Do They Sell Their Accounts
- Do They Pledge Their Merchandise
- Can They Borrow Without Security
- Do They Figure Taxes as a Definite Liability

Insurance Protection Carried

- Is The Net Worth on Which You Base
- Your Credit Premium Backed by
- Proper Insurance Protection

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Lo, the Poor Creditor!

The inhuman debtors' prisons so widely existent a century and more ago marked the peak of creditors' dominance. Today, the triumph of "debtor psychology" has culminated in the introduction of a bill that would make the request for payment of an honest debt a crime!

Yes, believe it or not, a bill was actually introduced recently in the New York Legislature which would have made it a crime for a creditor to telephone his debtor and ask that the debtor discharge his responsibilities under the debtor-creditor contract. It failed of passage—and deservedly so.

But that was just one of more than a dozen debtor-favoring bills that were introduced in that Legislature. And other states can report a similar condition.

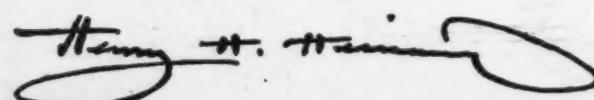
Another would have practically vitiated all creditors' rights in installment selling. The theory back of that bill was that the average buyer had to be protected. It was not flattering to the consumer because it presumed that he was incompetent to know what he should and should not buy. The sponsors of the bill evidently didn't recognize that the poorest thing the average creditor can do is to load a man with merchandise beyond his ability to pay.

If we want to lower the standard of living, or make complete wards of our entire citizenship, or point the way for a total collapse of the type of government we enjoy, there is no better way than through the adoption of unjust, confiscatory laws that liquidate all the remaining vestige of property rights. That, however, is obviously not the wish of our citizenship.

Some decades ago a legislator introducing bills of this kind would have been the laughing stock of his day. Today he may appear, to some, to be a hero. But the crown he believes he wears is, on clearer observation, the dunce cap.

Yet despite the recent record it is not likely that we will witness such an intensification of the debtor-favoring trend that we will have with us *creditors' prisons*, or that we shall see creditors "in the stocks" because they ask for their money.

It is not likely, true enough, but merely to mention the matter sharpens the realization that the debtors have indeed been riding a "wave of the present," if not a "wave of the future"!



Henry H. Heimann, Executive Manager, N.A.C.M.

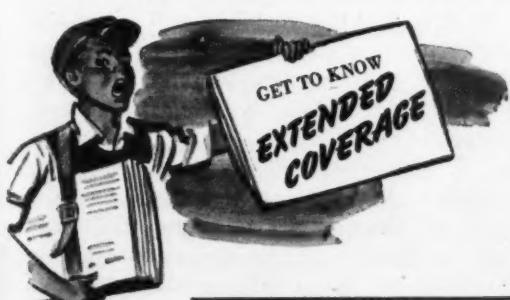
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Constructive Credit in a Reconstructed World

Keynote Address at 41st Credit Congress

SEvery credit executive knows that in these days of our years long-term credit considerations necessitate an analysis of the world situation. In an era of swift communication and rapid transportation in international matters, a catastrophe in any part of the globe may swiftly react on the business affairs of the customer with whom he is dealing and convert a normally sound domestic risk into a relatively hazardous one. The credit executive must constantly study world conditions. And because of this concern he must do his part in trying to bring back to a troubled world the sanity, stability and peaceful atmosphere which stimulate the wider and safer distribution of the products of field and factory.

War is destructive of credit, of civilization, of all that is best in mankind. Irrespective of how just the cause or how necessary the conflict may be, the toll is shared by both the innocent and the guilty. War's suffering and privation spares no class or no country. Those who are far removed from the conflict may not be as conscious of the destructiveness of all that is good and worthwhile in mankind. The combatants, so intent upon their immediate objective, of necessity must acquiesce in the liquidation of the nobler virtues of mankind that have built a civilization of which we have been justly proud.

What of the Future?

LET us as credit executives broaden our vision and take stock of what may be in store for us and our children. The living generations have so muddled world affairs and planted the seeds of hatred and animosity that it is unlikely the future generations can be spared the resulting hardships. But they can well be spared continuing conflicts, the loss of freedom and

By HENRY H. HEIMANN

Executive Manager, National Association of Credit Men

In his annual keynote address on Monday morning, Mr. Heimann first gave a short review of N. A. C. M. objectives. His remarks on this subject are presented on Page 21 in this issue.

life itself, if we seek to learn the truth and fashion a program that recognizes the golden rules of tolerance and interdependence.

It is easy to blame the present conflict on a dictator or two. The world would indeed seem a better place if some of the dictators were out of power. But the cause of the present struggle goes beyond any one or two men or groups. Dictators of their own strength could never as individuals seize power. Their programs would remain mere blue prints were there not an atmosphere conducive to helping them wrest the leadership from more conservative and humane administrators. Given a reasonable opportunity to live, a measure of freedom and an opportunity for the pursuit of happiness, dictatorship is impossible. On the other hand, when privation and suffering become the order of the day, when all of a people's strength and ingenuity is required to keep body and soul together, what is more natural than that the people turn to a leadership that gives promise—whether false or true—of an escape.

Unfortunately, in these situations the type of leadership that emerges is a false leadership and the road it follows is strewn with misery and brutality that deny the presence of anything resembling civilization.

Why is it possible to have a Hitler,

a Mussolini, a Stalin or any other dictator? What philosophy gives them power? What conditions existed so that they might come into power?

The answer is poverty, oppression, stagnation, corruption, virtual slavery—and in their effort to escape these conditions, be it in Russia or Japan or Italy or Germany, the common people move to the extreme and find themselves faced with the same problems and conditions under new but no better leadership. The terror of the Czars is now that of the Commissars; Kaiserism becomes Nazism—the labels change, the rest is unchanged. Until the cause of these evil growths is removed, we are hoping in vain for their disappearance.

The Role We Play

WE in this country today are trying to do our bit on the side of democracy by aiding with the weapons of war. Temporarily this has caused us to have a prosperity, a false prosperity that will haunt us, however, for years to come. Our preparedness program is essential. There can be no argument about that. Heavy expenditures are essential. No one will deny this. But we must keep in mind our objectives; for if we are to contribute to the cause, we have a right to know that the world of the future will be so patterned that peace has at least an even chance to succeed and that mankind will not continue to be enslaved in a competitive armament program that literally will ration the necessities of life throughout the world.

We have heard much in recent weeks about the desirability of the democracies outlining their plans of peace. There are many reasons why the democracies could not be involved in a complete discussion of peace when their efforts are concentrated upon victory. The goal of people

ighting the valiant battle must not be diverted by controversial issues of peace when peace still seems so distant. But in broad outlines we in the democracies must begin turning over in our minds the eventual world order. I too would like to see just a bare outline of that world order but I differ with those who contend that it is up to Great Britain to outline it. I believe the obligation rests upon the dictator countries as well and, in fact, our demand for an outline of peace should in all fairness be directed more to the dictators; for it is they who have principally violated international law and the rights of mankind.

What is their objective? That is of more importance than what may be the objective of Great Britain, for example. Many of us may disagree with the method by which some of the British Empire was gathered together. We know

Great Britain has made mistakes in the past. But, on the credit side of the ledger, we also know that Great Britain set a broadly beneficent pattern for the world, and tried to maintain a high ethical standard for the conduct of world affairs.

In this pattern for world peace we can begin with an acceptance of the fact that indemnities after any conclusion of the conflict are out! You may conquer a people militarily but you cannot enslave them—physically or economically—for any great period of time. No one ever really wins a victory at war. Mankind always loses it. There should be, therefore, no indemnities exacted. Second, there should be no shearing of their rightful territory from defeated nations. It should be recognized that unless there are economic possibilities within the border of a nation, that nation is fertile soil for the false philosophies of which I spoke a few moments ago. In time the harvest of hate, prejudice, false leadership and war will again be gathered. Yes, the pattern of the future world must give "living room"

and I say it despite the fact that the words have been used by those who are now brutally engaged in trying to dominate the world. They, however, have used it merely as a subterfuge and a camouflage to carry on their brutal conquests.

We Seek New Conditions

THE world's armament race and other such needless spendings must cease. The new world order should give us new conditions and new methods of life. But if we are going to

age to undergo the temporary suffering and privation required before the plan takes hold. But once we undertake it in this way confidence will bound back. The wheels of industry will begin to move. Remember too that the policy we in this country program after the war will be largely followed abroad. We are literally living in a goldfish bowl. The eyes of Europe will continue to be focused in our direction after the struggle is over. If we sanely reestablish ourselves, our pattern will be the pattern

for a peaceful and prosperous Europe. If we unselfishly take on our responsibility at the peace table then there is still hope for our civilization.

Yes, there will be a new world order as a result of trends that our generation will not see reversed. The war effort itself bears heavily on science, and science is engaged day and night in the production

of goods to replace many of the products of nature throughout the world. This will alter business as we have known it.

Factories are being built in this nation to meet our war demand. What is to be their utility once peace ensues? Are we going to duplicate the farm problem all over again? During the last war we plowed under sixty million acres of pasture land and set them to crops. For over twenty years farm surpluses have been plaguing us. Is the unproductive capacity of this nation, as it exists after the war, going to be the means of making business on an earning basis almost impossible?

We Face More Competition

WORLD investments are shifting. We in this nation will emerge with the heaviest stake in the world. England is liquidating many of its investments here and in other countries. After the war the returns from such investments as she has will no longer constitute the same share of her income as before. Can she continue to



Next year's presy receives the gavel. Left, President-elect Ray Wilson; right, Retiring President John Redmond.

meet these conditions and establish a peaceful life, the immutable economic principles must be brought into full play? Are we going to be prolific in country, once peace has been concluded, going to embark again on a spending program to seek to establish prosperity through spending other people's money or spending something that has been accumulated in the past or is to be accumulated in the future? That is the perpetuation of the prodigal son theory with never a return and a willingness to do penance. It is uneconomic in all of its basic aspects.

If in our present defense effort we are now to prepare for the future, we must recognize that the year ahead must be one of savings. Unless we today espouse a program of that kind we will not be in position later to effect a sound reconstruction.

Our pattern must be conducive towards the investment of funds. We must get the wheels of private industry moving on their own if we are ever to reestablish a basis of sound prosperity. We must have the cour-

import in the fashion she has in the past, paying for a large share of these imports with her returns from her foreign investments? The answer is obvious. She will have to export more. That will mean added competition for world markets.

We in this country possess most of the world's gold and credit. Are we going to allow it to be locked in a storehouse when the world is suffering? Are we going to be prolific in its distribution and donate it without thought of the contribution it may make to world peace? Here is a great responsibility we have and one we must discharge. In this gold that some people have frequently called a useless commodity we have, with the world in conflict, one of our greatest assets. Soundly used, it can materially aid the standard of living throughout the world. Only a shortsighted person would get the gold jitters because he does not realize the tremendous influence for good that gold can be.

Are we going to pay for our defense program principally out of borrowed funds, loading the banks with government bonds and thus build up a spiral of inflation? Or will we accept the tax burden that defense demands? One way out is the easy way—but it is only easy for the moment. It is cruel and inhuman and unjust to those who follow us.

It behooves every credit executive to help in a program that will seek the employment of excess funds arising in the present period of defense prosperity for three purposes. First, for the liquidation of private debt. Second, for the accumulation of savings to meet the eventual rainy day. Third, for the purpose of absorbing government bonds, which should be the storehouse of these surpluses.

Is continental Europe going to use the next peace treaty as a stepping stone for future wars? It is all very well to speak of a United States of Europe but remember in Europe there are many different nationalities involved. There are hatreds and prejudices rooted in centuries of conflict. If you would appraise the task properly, note well that in a short period of national life we fought a four year war between the states, each side of which thought its cause was just, to determine whether one people could remain a union. The contemplation of this will indicate to you the diffi-

culty for Europe to evolve such a pattern for peace.

Influences on Our Credits

THESE are the types of problems that the average credit executive must consider. The manner of solution of these problems will bear heavily upon our own domestic credit. Yes, all mankind will face a new, and what could easily be a cruel world. But there is a ray of hope and a ray of light. We know that the mass of the people now engaged in conflict are determined that future leadership will not again bungle the world's affairs. They will be a bulwark against the belief that the world must inevitably fall into a state of disintegration.

May I simply point out to you that when peace ensues there will be the greatest need the world has ever known for housing, for rehabilitation of industry, for the necessities of life, for the replenishing of storehouses, wardrobes and granaries, for the re-equipment of industry for peace-time purposes. We in this country have the credit and production facilities. The world needs the goods. Whether or not we drift into a new dark age depends upon the type of reconstruction program and its management. It remains for us and the other nations to find the ways and the means to satisfy these tremendous wants. If they can be found, then our period of transition from a war to a peace-time basis is going to be easier. We can, through bringing economic recovery to other lands, make the greatest contribution to world peace that has ever been known.

Let us realize that we have a two-fold responsibility. The first is to get our own house in order. Let us liquidate some of the false philosophies that have arisen in our own country. Let us abandon the cowardly method of boot-strap prosperity through a prodigal spending program. Let us make up our minds that we too must face a period of sweat and toil and tears and sacrifice. Let us recognize that in accepting this we will go a long way to regenerate that strength of character so largely responsible for world progress in bygone years.

Our second responsibility is to use our resources judiciously to aid the world in a sound economic reconstruction. This program calls for delicate handling. Let us, above all, not

bring disrespect for money and credit by passing it out without thought of reason or consequence. That would only be a distinct disservice to the world. Let us dedicate ourselves to its proper distribution, limiting its use to peaceful purposes, to economic stability and thus do our share as world citizens in once again starting the march that will eventually lead to a higher standard of living and economic prosperity throughout the world.

A Prospect for Victory

IF the world at large could bring to its people the advantages which science has privileged the American people to enjoy in their daily life, a great contribution to permanent peace would be made. There is a need for the development of electric power so that its use can help lift the burden now on the backs of the millions of people engaged in primitive work.

If our credit can be effectively used for these productive purposes then we can win a battle much more important than any military victory ever recorded—a victory for peace. It would eliminate the drudgery and burden, the disease and misery so prevalent now in so large a part of the globe. In such a world the false philosophies to which I referred earlier could scarcely take root. That is the purpose I think our credit and our gold should be dedicated to. That is an objective most worthwhile.

This type of program will help eliminate dictators. This type of program will dry the tears and bring forth the peaceful and contented smiles of a well-ordered people. This must be our answer to the doctrine of hate and strife, of immorality and destruction that is spewed forth by the cynical, the unbelievers, the misleaders of entire peoples.

This type of program will put fear into the stony hearts of those who are responsible for the suffering of mankind. This type of program will reveal that man is truly possessed of a soul worthy of his Creator.

Let us, in carrying through this type of program, have ever in mind these words of William Penn: "Men must be governed by God or they will be ruled by tyrants."

For it is true, in the words of the Biblical Psalm, that: "Unless the Lord guardeth the city, in vain do its guardians watch it."

Commercial Credit Analysis II

Importance of the Financial Factor

In our conception of the financial factor in the analysis of a business credit, we have in mind all those considerations which are ordinarily and properly accounted for in dollars and cents on the books of the business and which may therefore be summarized for study in the form of financial statements. An evaluation of the financial factor is made by studying the operating statements of the business to appraise its vitality and by analyzing balance sheet figures to determine its present and prospective financial strength. There are a number of supplementary statements, summaries, and comparisons that afford varying degrees of assistance in accomplishing these primary objectives. The predominant characteristic of the financial factor is its inseparable affiliation with financial figures.

Since financial statements form the base from which all appraisals of the financial factor are derived, obviously it is of fundamental importance that the figures be reliable and reasonably representative of factual conditions. Thus we have the prime consideration in all statement analysis: *How closely do the figures parallel the facts?* If financial figures could always be taken at face value, then the problems of statement analysis would be greatly simplified. Unfortunately, they cannot, and the determination of the extent to which they should be discounted is the real heart of the analytical problem.

However, through the preparation of financial statements by honest and expert public accountants it is possible to reduce greatly the margin of fallibility in the figures. It is too much to expect that all discrepancies with actualities be entirely eliminated for then we would be endowing the accountant with an uncanny ability as an appraiser and prognosticator of realizable values. We should gather some idea, though, of how much leeway

By EDWARD F. GEE,

Assistant Cashier, State-Planters Bank
and Trust Co., Richmond, Va.

to allow in our initial dependence on the figures presented.

Patently the preparation of financial statements by independent certified public accountants is greatly to be preferred over the management's own versions. However scrupulously honest the management may be, there is ever the possibility that it may be unconsciously optimistic in viewing its own activities or, a greater hazard, that it might unknowingly mislead or misrepresent through lack of knowledge of accurate and accepted accounting procedure. But blind reliance on a C. P. A. appendage is as much to be lamented as the lack of an outside audit.

Appraising the Accountants

THERE are differences in the character and ability of public accountants as there are in all types of personalities. The investigation of the accountants employed should be an important routine step in the evaluation of the financial factor. They should be as thoroughly independent of moral or financial subservience to the management as is possible under the present system of arranging engagements. They should be unquestionably honest, fully experienced in examining businesses of the type under consideration, and well qualified by training and intelligence to do a competent job. The quality of past work, as evidenced by report presentations, and the observations and experience of others are aids to an appraisal of the responsibility of accountants. Membership in the American Institute of Accountants and active participation in the work of this and of other state or local professional groups is an encouraging evidence of progressiveness.

It is usually true that an account-

ing firm is engaged or employed by the active officers of a corporation, upon whom it is incumbent that a good showing be made, rather than by the stockholders and directors, with whom rest ownership and ultimate authority. Since accountants live by their engagements, they must look to the active management of a business for their livelihood, yet at the same time they are supposed to make uncolored, unbiased, and impartial figure presentations of the management's activities to stockholders, directors and creditors. Obviously, this is a paradoxical and undesirable situation. Some of its abuses have been entertainingly disclosed in an interesting book, *Are You a Stockholder?*, by Alden Winthrop. It is Winthrop's feeling that "what is fundamentally needed in American business practice is a radically changed relationship between the accountant and the management staff, and between the accountant and his social responsibility."¹

As the American Institute of Accountants points out, the method of appointment of the independent auditor and his status in relation to the client are subjects of great importance to stockholders and creditors.² Some few corporations have adopted the commendable practice of having the independent auditor engaged or nominated by the board of directors or elected annually by the stockholders. In other instances the stockholders have been given an opportunity of ratifying the selection made by the directors.

It is plainly to the interest of the credit man to sponsor the development of these practices since they tend to insure the auditor's complete independence of the management.

¹Winthrop, Alden, "Are you a Stockholder?", (Covici, Friede, Inc., New York, 1937) pp. 261-262.

²Report of the special committee of the American Institute of Accountants on auditing procedure, entitled "Extensions of Auditing Procedure," in *The Journal of Accountancy*, Volume LXVIII, December, 1939, p. 382.

The Scope of the Examination

OF FURTHER practical importance, there are significant differences between the scope and reliability of the examinations upon which the accountant may base his financial statements. The analyst should be fully aware of the limitations surrounding the accuracy of the figure evidence with which he is working. Every comment in an audit report should be read carefully, and its significance noted, particular attention should be given to those outlining the scope of the examination, and finally the certificate should be studiedly reviewed and full credence given to all of its qualifications and implications.

The best thing that any credit man can do to get a thorough understanding of the general limitations with which accountants are faced and to obtain an invaluable insight into a specific credit situation is to sit down with the practicing accountant and discuss a given examination in extensive detail.

The analyst should not overlook the potential significance of an unexplained change in accountants. Some accounting firms have such high professional ethics that they will withdraw from a long-standing engagement rather than countenance managerial practices and policies with which they are not entirely in accord.

The Balance Sheet

THE basic exhibit in the accountants' report is the balance sheet. It is a candid camera shot at a given moment of a group of business accounts which, for the most part, are in a constant state of flux. It is a summary sheet, listing what the business owns, what it owes, and what remains for its owners as of the close of a specified day. On one side, the funds invested in assets are itemized along with the remaining cash; on the other, the sources of these funds are shown, consisting either of credit from others or of capital funds supplied by the owner or owners.

The balance sheet plainly discloses how the total of the assets of the business compares with the total of its liabilities and what the books indicate to be its remaining net worth. The objects of analysis are to evaluate the quality of these assets and in the light of this evaluation to determine the fundamental soundness of balance sheet proportions and to detect,

through observations of changes or trends, any evidences of incipient weakness or instability. Some of the methods used in accomplishing these objectives will be referred to in the following chapter.

The Profit and Loss Statement

THE balance sheet is a stolid statement of property values and creditor claims. It has none of the aura of motility surrounding the profit and loss statement which we know as a summation of the monetary income and outgo of a business over a specified period of time with a residual showing of a profit or a loss. The volume of activities that flow through a business is disclosed by the profit and loss statement, together with the component elements of the cost of acquiring and selling its goods and of administering the affairs of the enterprise. Finally, it tells a story of progress or decline over a given period and of why, and how, a stated result was achieved.

There are hundreds of hints to managerial ability, to productive and operating efficiency, and to business vitality and future developments, that may be found in a study of the proportions within a profit and loss statement and of comparisons with the activities of comparable periods.

A large and increasing ratio of returned sales and allowances to gross sales may indicate a developing inferiority in merchandise quality. The size and the trend of the gross profit margin is a significant index to the manufacturing and merchandising efficiency of a business.

The ratio of salesmen's salaries and commissions to net sales reflects on the effectiveness of the sales organization. The ratio of advertising expense to net sales is an indication of the relative productivity of promotional efforts. The ratio of freight outward to gross sales will show up changes in freight absorption policies and reveal expensive market expansions. The ratio of freight inward to purchases may give rise to questions of purchasing economies. The ratio of traveling expenses to net sales may disclose the unfavorable enlargement of an unwarranted and unnoticed expense seepage.

An Important Ratio

THE ratio of officers' salaries to net sales is important to watch in its effect on net operating results. The

ratio of general office salaries to net sales discloses any unwieldly or disproportionate development of the administrative organization. The ratio of rent expense to net sales is pertinent to the proper balance of an operating statement. The relative size and trend of insurance expense will suggest any marked changes in insurance coverage. The size and trend of expenditures for legal services may lead to the disclosure of dragging litigation. The size and trend of expenditures for auditing services reflect on the quality of the accountants' engagement. The ratio of bad debt charge-offs to net sales is a definite indication of credit judgment and efficiency and a reflection on the quality of the receivables asset. The size and trend of the depreciation provision and of expenditures for property repairs may have an important bearing on future earnings and on a consideration of fixed asset values.

The ratio of discounts earned to purchases reflects on trade paying habits and may mark an unfavorable drain on net profitability that might be remedied by adequate bank credit. The ratio of discounts allowed to net sales is indicative of the quality of the class of trade and hence bears on an appraisal of balance sheet receivables. Finally, the size and relationship of interest expense to net sales reveals any excessive penalties on business management for lack of adequate operating capital. These are a few of the intimations that may be gathered from a review and comparison of operating details.

Officers' Salaries in Close Corporations

SIZE and fluctuations in officers' salaries have especial significance in small corporations for frequently ownership and management rest in identical hands and the owners may elect to take their earnings in the form of salaries rather than dividends because of the tax economies involved. For this reason, a more reliable picture of the real profitability of a business in which the owners and managers are the same individuals can be obtained by computing and comparing net profits *before* officers' salaries or other forms of managerial compensation.

In a manufacturing organization, a satisfactory analysis of changes in production costs and efficiency cannot be made without the availability of

figures on physical units of quantity. Where practicable, unit production figures should always be obtained and the elements of manufacturing cost, raw materials, direct labor, and manufacturing expense, stated and compared from period to period in terms of average cost per unit of production.

Unit quantities are also significant in viewing sales volume and the relation thereto of selling and administrative expenses. Fluctuations in dollar sales do not always parallel changes in physical volume due to the rise and fall of unit prices. It is conceivable and no doubt occasionally true that dollar sales may decline because of falling prices although the volume of physical activities may actually be heavier and be accompanied by a corresponding rise in variable expenses.

The analyst should never overlook the close correlation between inventory valuations and operating results. Consistently sound and accurate estimates of inventory stocks are as essential to the proper statement of periodical earnings or losses as they are to the correctness of the balance sheet. Much too often we are prone to question the value of the inventory as an asset while accepting without a qualm the reported profits of a period derived from the use of the self-same figure.

Non-recurring income charges and credits should be the subject of special study as extraneous financial gains or losses may unduly and misleadingly inflate or depress final operating results.

Whenever the nature of the business activity warrants, operating statements should be completely departmentalized. This enables the analyst to determine if each division of the business is carrying its own weight and frequently is the means of discovering departmental weaknesses that may threaten to impair the financial health of the entire organization. The figures of each department should be analyzed as thoroughly in relation to its own sales or production activity as those of the business as a whole.

Statement of Surplus or Capital Accounts

To complement the profit and loss statement, it is essential that a statement of surplus be obtained for a corporation and a statement of capital account or accounts be obtained for a

proprietorship or a partnership. The purpose of such a statement is to reconcile the net change in the surplus of a corporation or in the net worth of a proprietorship or partnership, as shown by balance sheets at the beginning and end of a period, with the net profit or loss shown for the period by the profit and loss statement. Frequently, where the extraneous debits and credits are few in number, the reconciliation will not be dignified by a separate statement but will appear on the face of the balance sheet or perhaps as a concluding part of the profit and loss statement.

It is a fundamental principle of statement analysis that the periodical changes in the net worth section of the balance sheet be definitely accounted for. The reasons are obvious.

In his article in July
Mr. Gee
will discuss
Balance Sheet
Analysis as it applies
to commercial credit
appraisals.

Unrealized gains in net worth from asset write-ups, improper charges for actual operating expense items, and other manipulative practices are thus immediately brought to light. Dividend and withdrawal policies are also important to follow. Operating profits that do not find their way to the balance sheet lose much of their significance to the credit analyst.

In a corporation, it is necessary that changes in the amount of outstanding capital stock be noted and considered in a complete reconciliation of net worth. Stock retirements may result in a reduction in net worth despite retained operating profits or worth may advance in the face of a loss through the issuance of new or additional stock.

Because the credit man is primarily concerned with the future conduct and condition of a business, he finds business budgets to be of

vital interest and assistance. A budget, according to Finney, "is an operating and financial program for a future period, based on results attained in prior periods and on data obtained by research and analysis."³ It is developed by making forecasts of such items as sales, production costs, distribution expenses, administrative expenses, financial expenses, and additions to capital assets, and by assembling these forecasts of details into (1) an estimated profit and loss statement for the budget period, (2) an estimated statement of cash requirements and sources of receipts to meet such requirements, and (3) an estimated balance sheet at the end of the budget period.

Budgets may be very simple or they may be very elaborate, outlining in extensive detail the activities of each division, department, and sub-department of the entire organization. In one form or another, however, they are essential to the conduct of a business. Even the corner groceryman must make some estimate of his future sales requirements, mentally or otherwise, if he is to exercise any degree of control over his purchases.

While it may be desirable to have a general budget outline of a full year's operations, it is sometimes found more feasible to restrict the detailed budget to perhaps quarterly periods. The skeleton outline can then serve as a basis for general plans and policies and the three months' budget used as a detailed guide to current operations.

Aside from their obvious value to intelligent internal management, budgets can be and should be a source of important information to the bank credit grantor. Stephen Gilman, in his work on *Analyzing Financial Statements*, sums up the significance of budgets to the credit man in the following interesting and informative way:

"It (the budget) is a matter of real importance to the banker who often requests his borrower to prepare an estimate of future transactions in order to convince the banker of the need for credit accommodation and to show him how the funds will be used and when, in the normal course of business, they can be repaid. The construction of such an estimate must necessarily be (Cont'd on P. 40)

³Finney, H. A., "Principles of Accounting" (Prentice-Hall, Inc., New York, 1935), Volume II, p. 493.

Why Business Failures? - No. 2

Detecting Failure Tendencies

SBusiness failures and losses can be avoided—"Barn doors should be locked before the horses are stolen!" It is not sufficient that the *reasons for failure* at the time of bankruptcy be recognized, although this may reduce the failure losses in subsequent liquidation. To solve the problem the causes of failure must be detected, analyzed and corrected in their early stages. While bankruptcies over the past twenty years have averaged more than 47 thousand annually, a substantial part of these misfortunes could have been prevented if proper methods for the detection and correction of failure causes had been applied. Last month in the first article of this series causes of business failures were classified and analyzed. It is now necessary to develop for the business executive, creditmen and investor methods by which these causes may be detected and corrected.

The first responsibility in detecting and eliminating the symptoms of failure rests with management. Managements are not only in a much better position to determine the important points of weakness in their enterprises but are accountable in the final analysis for the successful operation and solvency of their companies. Being responsible for the preparation and analysis of vital, detailed and controlling statistics, they are in a position to detect, at an early stage, any failure tendencies; many unfavorable factors and influences which if not detected and corrected by management will bring grief to the enterprise and losses to creditors and investors. These failure tendencies can be detected by alert managements who can and do neutralize their effect while other managements, although able to detect causes of failure, are helpless in correcting them. Present controlling managements may be unable to eliminate conditions resulting from the lack of a sound economic foundation or an initial defective financial plan arising from poor promotion or

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reorganization. Efforts to correct these underlying, and, to a certain extent, uncontrollable causes of failure are commendable and may be the means of reducing ultimate losses in failure. On the other hand, a defeatist attitude of helplessness and avoidance of all responsibility merely aggravates the situation.

Creditors and investors likewise cannot escape their responsibilities for the detection and correction of failure tendencies. Too frequently they have relied upon management which has failed them. While it is true that creditors and investors are on the "outside looking in," they nevertheless frequently take a superficial and apathetic attitude. They are too willing to give of their substance before thoroughly checking the ability and integrity of management, failing to ascertain whether the enterprise has a sound economic foundation for exist-

ence and an adequate financial plan. Creditmen in many cases are not sufficiently alert before or after making their commitments and to this extent may be responsible for the magnitude of the ultimate failure.

Classification of Causes of Failure

THE first step in the successful elimination of failure causes is their detection. Accurate detection and diagnosis of failure tendencies requires a thorough understanding of cause and effect. A study of the causes and effects of past failures has made possible the development of a comprehensive classification of the detailed and specific causes of failure, as presented last month in the first article of this series. These causes may be divided into two main classes, External and Internal. The external causes embrace *Economic Conditions, Political and Legal Factors, and "Acts of God" and Other Causes*. The external causes of failure which in a large measure may be beyond the control of management, are still subject to *recognition* by creditors and investors as well as by the management itself. The internal causes arise from the acts of financial and operating management and to a large extent are within their control.

External Causes of Failure

EXTERNAL factors bearing on the success or failure of an industry or individual enterprise cover a wide variety of influences affecting every business organization to a greater or lesser degree. Few business men, creditors, bankers and investors fully understand the effects of economic conditions, legal and political factors, or the so-called "Acts of God." Business men, in common with government leadership and the people as a whole, are often swept along in the maelstrom of events. With only the ineffective methods of trial and error to guide them, they flounder

helplessly about and either fail or sometimes "muddle through to recovery."

There is real need for more intelligent and constructive thinking on the broad question of the external causes of failure. In spite of extensive research projects in the past on the part of Government, business, research foundations and institutions of higher learning, the broad problems of business failure caused by economic and political factors remain unsolved. Illustrative of the efforts in this direction are the many studies and research projects undertaken by various government agencies such as the Federal Reserve Board, the Departments of Commerce, Agriculture and Labor and more recently by the Temporary National Economic Committee. Business men have participated in the attempted solution of this problem through their Trade Associations, the National Industrial Conference Board, the United States Chamber of Commerce and various private research organizations. Institutions of higher learning are represented in their efforts, through such organizations as the Brookings Institute, the Graduate Schools of leading Universities, the Twentieth Century Fund, Inc., and the Carnegie Foundation. All of these efforts have proved inadequate in as much as the broad problem remains unsolved. The apparent lack of progress in solving the failure problem results from inadequate, or biased research, improper dissemination of findings, and frequently a refusal on the part of business, government, creditors and investors to accept constructive conclusions and recommendations.

It is not within the province of business management to eliminate or correct the external causes of failure. However, it must assume complete responsibility for anticipating and meeting the maladjustments arising from these external forces which, if not corrected, lead to failure. On the other hand, a diagnosis and correction of *internal* causes of failure lies primarily within the jurisdiction of management.

Economic Conditions

CAUSES of failure arising from the life cycle in industries and business enterprises, together with the business cycle must be recognized, analyzed and solved, even though the basic causes are, to a large degree,

beyond the control of management. However, managements capable of meeting and solving these problems successfully avert business failure while others are responsible for the staggering losses arising therefrom.

The rise and fall of industries and individual enterprises in conjunction with the life cycle is outlined in the following summary.*

Period	Industry	Corporation
1. Development and experimentation	New industries such as television, bio-chemistry, etc.—Dupont "Nylon"	Promotion, "Birth" born
2. Rapid growth	Aviation, plastics, air conditioning, rayons	Expansion, internal and external, "adolescence"
3. Stability and diminishing rate of growth	Automobiles, cotton textiles, printing and publishing	"Maturity" — earnings relatively stable — dividend basis
4. Decline	Manufactured gas, tractions, anthracite coal, railroads	"Distress" consolidations, mergers, "old age"
5. Obsolescence and decay	Ice distribution, lumber, wood shingles, etc.	Failure, bankruptcy and liquidation, "Feeble old age and senility, death and burial"
6. Reorganization and new development	Lighting, glass, tractor farming, southern pulp and paper	"Rebirth" and reorganization, successful re-promotion

* "Corporate Readjustment and Reorganization" by Louis P. Starkweather, New York University Bookstore—New York—1940—pp. 20-21.

Man in his efforts to satisfy human wants is constantly creating new business enterprises. These enterprises if successful in satisfying human wants pass through a well defined life cycle of six distinct phases. First comes the period of development and experimentation; second, rapid growth; third, a period of stability and diminishing rate of growth; fourth, decline; fifth, obsolescence and decay; and sixth, reorganization and new development. Individual enterprises may disappear through failure and bankruptcy but human wants must still be satisfied. The basic industries continue to satisfy these human wants but new enterprises are created to take the place of those unable to adjust themselves to the ever-changing economic picture. Able managements of individual enterprises fully cognizant of the forces generating the life cycle of industries, adjust the affairs of their individual companies so as to avoid decline and retrogression. Inefficient managements on the other hand may not even survive the initial stages of experimentation and early development while more successful manage-

ment.

Business policies must be formulated in relation to progressive changes in the economic and political picture. Management, to be effective under these conditions, must be adequately versed in current economic events and history. Mere alertness in recognizing economic and political developments is not sufficient unless management has the necessary background to interpret their significance. Such economic and political conditions may have an overall effect upon the industry as well as a specific bearing upon the individual enterprise. Thus the problem appears to be threefold; first, to recognize such developments; second, to interpret them and third to anticipate and to guard against their adverse effects.

Economic, Political Causes

MODERN methods of communication and dissemination of news, information and current developments in national and international affairs is so complete and effective that there seems to be little excuse for managements', creditors', and investors' failure to recognize economic and political

change. In addition to the newspapers, countless publications of a specialized nature are available, many of which are literally free for the asking.

In view of the mass of material available, it is appropriate at this point to mention only a few specific illustrations. In the field of Government publications, there is the Federal Reserve Bulletin, Survey of American Business by the Department of Commerce, as well as many special studies and bulletins issued from time to time by that department, the Congressional Record, and the reports of the Federal Trade Commission, the Securities and Exchange Commission and the Attorney General of the United States. In the case of specific industries, Trade Associations are active in the publication of large amounts of both specific as well as general information concerning their particular industries. Various special magazines are available such as Iron Age, Oil and Gas Journal, Public Utility Fortnightly, Textile World, etc. Illustrative of financial publications, there may be mentioned the Wall Street Journal, The Journal of Commerce, The Magazine of Wall Street, Barron's, The National Financial Weekly, The Commercial and Financial Chronical as well as a vast amount of information available through the recognized statistical services such as Standard and Poor's Corp., The Fitch Investors Service, Babson, Moody and many others. With such complete sources of material available, there can be little excuse for not recognizing the political and economic developments affecting business enterprise. The problem of analyzing and interpreting these developments is far more difficult.

Interpreting and Evaluating External Causes

CERTAIN of these economic and political developments are of an overall character affecting the general business picture while others are of a specific nature tending to affect only the individual industries or enterprises.

Outstanding in importance in the failure problem is the general business cycle. This economic phenomenon represents the composite result of many individual economic and political forces which combine to operate favorably in times of boom conditions and adversely in periods of depression. Admittedly, business enter-

prises as individual units are powerless to eliminate business cycles but realizing that they are recurring, there is no excuse for management's failure to fortify against the inevitable effects. The cause leading to failure is not the business cycle but rather the inability to anticipate the effects of the cycle. Although the effects and characteristics of previous business cycles may act as a guide for the future there still remains the factor of timing, as well as the extent of adequate preparations if failure is to be avoided.

The four major phases of the general business cycle are revival, prosperity, decline and depression. The economic conditions characteristic of these four major phases of the business cycle are illustrated in the accompanying Table I.

Realizing that business as a whole is affected by the forces of the business cycle producing alternate periods of business activity and stagnation, management, creditors and investors must appreciate their responsibility for the evaluation of these forces upon their individual enterprises. It is obvious that sales and earnings will decline during a period of recession and in the early stages of depression. Overhead costs as a rule cannot be reduced proportionately to the sharp contraction of sales and earnings. Inventories will necessarily decline in value due to the downward trend of commodity prices. Interest, taxes and other fixed charges will remain constant. Consequently, it is the responsibility of management to prepare for these eventualities by putting their "house" in such financial order that the approaching storm may be weathered successfully.

Political and legislative acts have always influenced industry. These acts are evidences by "Revolutionary" or far-reaching legislation, in the form of taxation, tariffs, government interference and subsidization. While these are illustrative of "overall" forces affecting general business they likewise strike individual industries and enterprises. Since the World War, and more particularly since 1932, business interests have had to consider political conditions more carefully than ever before. At present writing the recovery of industry with substantial investments of new capital is being effected under the stimulation of another great world

crisis which must inevitably bring with it major problems of post-war adjustments. Congress has given the President extraordinary emergency powers of regulation and has enacted into law far-reaching measures of taxation, defense and social reform. Business interests watch with grave concern the effects of acts authorizing the President to experiment further with credit inflation. Political control of money, credit, farming and industry is bound to affect business as well as every employer and employee of industry. Business men, investors and creditors are being informed constantly of legislative developments, and, through freedom of the press and the radio, receive many interpretations.

TABLE I
The Forces of the Business Cycle
Revival

1. Revival sows the seeds of Prosperity.
 - a. Conditions at beginning of period
 1. Considerable unemployment
 2. Small volume of business
 3. Labor and management efficient
 4. Low raw material, labor and interest costs
 5. Debts liquidated
 6. Accumulated shortage of goods
 - b. Favorable outlook for investment construction.
 - c. Volume of construction increases
 - d. Volume of general business increases
 - e. Prospect of rising markets stimulates forward buying
 - f. Cumulation of Prosperity

Prosperity

2. Prosperity contains seeds of Depression.
 - a. Labor fully employed
 - b. Efficiency of labor and management decreases
 - c. Cost of doing business increases
 - d. Selling prices increase, but not enough to maintain profit margins
 - e. Stocks of goods become large and markets are over-bought
 - f. Investment construction falls off
 - g. Tension in the money market increases
 - h. Creditors begin to press for payment

i. Cumulation of Decline and Liquidation

Decline

3. Liquidation of Prosperity.

- a. Profits decline
- b. Goods forced on market at reduced prices, buying restricted, volume of business decreases
- c. Retrenchment becomes general, unemployment grows
- d. Liquidation spreads and cumulates
- e. Prices decline more rapidly
- f. Credit strain increases, volume of business decreases
- g. Failures increase, crisis or panic follows
- h. Cumulation of Depression

Depression

4. Depression breeds Revival and Prosperity.

- a. Credit strain is reduced
- b. The volume of business low, buying for immediate requirements only, wages fall, efficiency increases
- c. Prices and cost of doing business decline
- d. Cost of construction declines
- e. Merchandise stocks reduced, shortage of both producer's and consumer's goods
- f. Credit entanglements straightened out, interest rates continue to decline
- g. Cumulation of Revival Forces

From "Corporate Readjustment and Reorganization," Louis P. Starkweather, New York University Bookstore, New York 1940, page 22.

"Acts of God" and Other Causes

THE average business management is powerless to protect his enterprise against widespread disaster such as wars, revolutions, earthquakes, floods, conflagrations, epidemics and other non-insurable risks. Although insurance protection is available under ordinary conditions covering the so-called "normal" risks of business enterprise, "Acts of God" are insurable only at prohibitive costs. Strikes, sabotage, and fraud are to a certain extent within the control of management. These causes unlike the "Acts of God" are subject to recognition, interpretation and modification of effect by management. Some of these causes such as fraud are subject to insurance protection while others such as strikes and sabotage are not. Widespread labor difficulties usually result from a failure of man-

agement's previous labor policies of long standing, being a culmination of many past injustices to labor. Unfortunately, in spite of sound labor policies on the part of individual managements, it is axiomatic that the innocent often suffer for the guilty. Notwithstanding sincere efforts (by individual enterprises) to recognize, interpret and adjust labor conditions to a sound basis, this cause of failure may still exist because of management's policies throughout industry in general. Typical of the influence of unsound labor policies in some companies and industries was the unsuccessful efforts of the Committee for Industrial Organization to unionize the Hershey Chocolate plant at Hershey, Pennsylvania, and the Endicott-Johnson Shoe plant in New York State. In the case of both of these companies labor policies and industrial relations were far in advance of those prevailing in industry as a whole.

Fraud of ordinary proportions is insurable but must be anticipated, recognized and provided for by responsible managements. A striking illustration of how a management may perpetrate a major and non-insurable fraud is that of McKesson and Robbins, Inc.

Internal Causes of Failure

UNLIKE the external causes of failure which are of a more general overall character and to a larger degree beyond the control of management, the internal causes of business failure are more specific in nature and are chargeable directly to either financial or operating management. Financial management embraces two phases of financial activity—first initial promotion, merger, consolidation or reorganization, while the second concerns itself with the subsequent financial problems in the operation of the enterprise. Operating management covers the fields of policy making and the development of an internal organization to carry out management's policies through proper coordination and control.

Many enterprises begin their existence as assured failures because they lack a sound economic basis for existence. No operating management can be expected to make a success of an enterprise which has been poorly conceived. The Waldorf-Astoria Hotel Corporation in New York, promoted in 1929, and opening its doors for

business on October 1, 1931 was in financial difficulties six months later, being unable to pay its ground rent and interest charges. In less than four years the enterprise lost its entire net worth of over seven million dollars and prior to the reorganization in 1935 the landlord represented by the New York Realty and Terminal Company, a subsidiary of the New York Central Railroad, had lost over four million dollars in ground rent and interest. The fact that within six months after the hotel commenced business it was unable to pay its rent and interest charges is evidence that it was ill-conceived. At the time of promotion the rate of hotel occupancy in New York City was only 67% of total capacity.* This condition existed in 1928 and 1929, years of general business prosperity. In view of the excess hotel room capacity both in New York City as well as throughout the country, it would be hard to justify a sound economic basis for such a project. Thus it may be concluded that the outstanding cause of failure was the lack of a sound economic foundation. Even though the project had been financed solely with stock it still would have been an Economic Failure, and no doubt, eventually a legal one. The operating income, after taxes, for about three years amounted to only a little over one percent on a gross valuation of about forty million dollars.

Defective Financing

MANY enterprises although soundly conceived are unfortunately defectively financed. Corporations are brought into existence by promoters and bankers who determine the initial financial structure. The structures may be strong or weak. Corporate managements subsequently may improve or impair the initial financial structure. Not infrequently is it found that the initial financial structure is so faulty that subsequent financial and operating management is powerless to overcome the handicaps imposed upon them by the originating promoters and bankers. Many such unbalanced financial structures are predicated upon faulty estimates and forecasts (Cont. on P. 44)

* A hotel should be set up in such a manner that it will operate at a profit between 65% and 70% of capacity. In cities such as New York with income from restaurant and bar it should be able to operate at even a little less.

Some Don'ts in Collection Work

Beware of Violation of "Right to Privacy"

SM In February of this year a bill for the amendment of the Penal Law was introduced in the New York State Legislature.

"Any person who attempts to intimidate another or cause injury to his reputation in the community where he resides, by demanding payment of any claim by means of telephone communication, is guilty of a misdemeanor and upon conviction is punishable by a fine not exceeding fifty dollars or by imprisonment not exceeding six months, or both." (a)

Divorced from the trend of the past fifty years of legal decisions, this proposed statute is an anomaly. Upon what fantastic grounds of either justice or equity should a creditor be forbidden to telephone his demands for money honestly due and owing?

When the candidacy of Champ Clark of Missouri was considered in the approaching presidential campaign of 1912, there sprung into popularity a song of the middle west with an origin that antedated the time of Daniel Boone.

"Every time I come to town
The boys keep kickin' my dawg
aroun':
Makes no different if he is a houn'
They gotta quit kickin' my dawg
aroun'." (b)

The spirit of that folk song has led our law down a new and untried path. The recent bill in the New York State Assembly is only a milestone on that path.

"Right to Privacy"

IN the December, 1890, issue of the Harvard Law Journal, is an article entitled, "The Right to Privacy," by Justice Brandeis. "In early times," he wrote, "the law gave a remedy only for physical interference with life and property. Liberty, then, meant simply freedom from restraint. Later there came a recognition of man's spiritual nature, of his feelings and

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his intellect. Gradually the scope of these legal rights broadened and now the right to life has come to mean the right to enjoy life—the right to be let alone. The right to liberty secures the exercise of extensive civil privileges—intangible as well as tangible Along with this right of life grew the conception of property in trade secrets and trade marks and good will This development of the law was unavoidable. The intense intellectual and emotional life and the heightening of sensations that come with the advance of civilization, make it clearer to men that only a part of the pain, pleasure and profit of life lay in the physical things. Thoughts, emotions and sensations demanded legal recognition and the beautiful capacity for growth characterizes the common law enabled the judges to vary the requisite protection without the interposition of the legislature." (c)

A succinct comment of the late Justice Holmes in "The Common Law," published by him in 1881 supplements this idea. "The truth is that the law is always approaching a never reached consistency. It will become entirely consistent only when it ceases to grow." (d)

Fences Around Collections

LITTLE by little, since then, courts have built a protection for those who were once inmates of debtors' prisons. Restrictions have been placed on collection activities. The fence has slowly been raised to increasing heights.

"Permit us to direct your attention to a matter of importance," wrote a creditor to the employer of a delinquent debtor a few years ago. "Miss Keating, of your employ, purchased from us some time ago clothing amounting to \$79.50. Although agree-

ing to pay us \$2.50 a week, to date we have received no payment on the balance of \$10. Frankly speaking, the only basis upon which we extended credit to her was the fact that she was a person in your employ, from each of whom you require a certain standard of honesty. Now there are two ways open to us to enforce collection. One way is to take the debtor to court; this involves a loss of time and additional court costs, to which naturally we do not like to resort unless absolutely compelled. The other method which we prefer is to appeal to a man in authority like yourself. We honestly believe that a word from you will make her realize the unfairness of withholding payment on a just obligation." In the consequent suit a verdict was given for the delinquent debtor which the trial court set aside. On appeal this verdict was reinstated. "We are of the opinion that the defendant's letter of the complaint was libellous per se, especially in view of defendant's letter to plaintiff written in advance of said libellous communication." (e)

Advertising Accounts

IN Lebanon, Kentucky, the same story is retold except with a different setting. One morning, across the show window of a garage on the main street of the city, was stretched a sign six feet wide and five feet high. "NOTICE: Dr. W. R. Morgan owes an account here of \$49.67. And if promises would pay an account this account would have been settled long ago. This account will be advertised as long as it remains unpaid."

Dr. Morgan was a veterinarian. His livelihood depended on the good will of the people of his city. His indebtedness to the garage owner was unquestioned. This display sign advertised his obligation, however, encroached upon his inherent right to live and conduct his affairs free from

interference of this type as from physical violence.

Suit was brought against the garage owner for \$6,500 and a motion made to dismiss the action. Denying the application the court said: "A new branch of the law has been developed in the last few years which has found place in the text books and in the opinions of the courts, which is denominated the right of privacy. It has not been concretely defined and probably is not subject to concrete definition but it is generally recognized as the right to be let alone, that is, the right of a person to be free from unwarranted publicity, or the right to live without unwarranted interference by the public about matters with which the public is not necessarily concerned." (f)

These situations arise most frequently in the thoughtless misuse of correspondence. It is apparently difficult for a zealous creditor to eliminate his irritation over delinquent accounts, from correspondence with third persons and even with the debtor himself, when the dictation involves any others than the writer himself.

Letter to a Bank

A FIRM in Mobile, Alabama, forwarded to a collecting bank a draft with the following letter: "We return the papers in the Ferdon case with the request that you present again and if not paid please turn over to some Justice of Peace with instructions to sue on the knowledge of the fact that Mr. Ferdon is about to leave the state for the purpose of defrauding his creditors. The account is long past due and if Mr. Ferdon's intentions were honest and sincere he would have remitted a long time ago since he has sold out his business and ought to have the means received from the sale. We have no confidence in his representations to us about coming here to Mobile in a week. It is not necessary that he come here to pay. He can pay you just as well as paying us, if he had any honesty or sincerity of purpose to pay." (g)

Obviously the attitude of the bank officials towards the delinquent Mr. Ferdon held more of the milk of human kindness. The letter was passed along to Mr. Ferdon. A subsequent libel action was decided with this comment: "Parts of the letter which form the basis of the alleged libel are

unquestionably libellous per se. The publication which imputes an unwillingness to pay debts is libellous per se, for the reason that its tendency is to destroy a party's reputation for integrity and fair dealing."

By whatever name the offense is styled, unfair competition, libel, right of privacy, assaults of this character against the integrity and reputation of one who fails to pay his obligations, have been condemned, with compensation in damages, regardless of whether or not the money is owed.

A barber in New York State, years ago, placed in his shop window a shaving cup with a customer's name inscribed across its face and below it a card. "This man owes this shop \$1.15 since 1885." The customer recovered a judgment. Whether or not the inscription told the truth was immaterial. (h)

Beware of Blackmail

THE employment of any type of publication reflecting upon the fairness and honesty of delinquent debtors is condemned. In Louisiana a list of delinquent accounts in the form of a circular, advertising various obligations for sale, was distributed through the streets. On the circular was, "These accounts are guaranteed undisputed, correct and just." "Although this language," said the court's opinion, "is used in connection with the call for bids, it but thinly disguises the real purpose of the entire plan. There are other features which raise serious questions of actionable conduct in addition to the technical charge of libel and slander. They smack of the elements of blackmail. It makes no difference that the money to be extorted was legally due." (i)

"Wanted: E. B. Zier, M. D., to pay a drug bill," was the notice in the "Want" column of a Minnesota newspaper. To add potency to the efforts at collection, the item was clipped from the newspaper, pasted on a postal card and mailed to the debtor's fiancee in Minneapolis. On a motion to set aside the verdict of the jury in favor of the debtor, the court made this comment: "The meaning they (the published words) would have is for the jury to determine, in view of the circumstances of their publication. We do not consider the damages excessive." (j)

The credit man assumes another hazard when he enlists the aid of collection agencies and fails to acquaint

himself with their methods. Requests for payment are legitimate. A suit for collection is, of course, beyond criticism. Variations in this procedure lending themselves to a personal attack on the reputation of the debtor bring their repercussions to the door, not of the collecting agency, but of the firm which retained them.

Some time ago in Texas one Hall owed a firm of that state \$35.18. In the liquidation of his account he assigned to this creditor a debt he claimed due him from a Mrs. O'Niell. The collection of this obligation from Mrs. O'Niell was turned over to a collection agency. Two letters, sent in unsealed envelopes, were mailed the debtor. The first letter: "A claim has been reported to us of \$36.99, owed by you to Burton, Lingo & Co. Call or write to the party to whom this account is due and have them notify us at once what arrangements you have made for settlement." This letter was followed by, "If you desire to maintain a reputation for honesty and fair dealing and a good credit with the merchants in your locality, you will adjust this claim at once."

"Bad Debt Collection Agency"

ON the envelopes were endorsed, "Sprague's Bad Debt Collection Agency." Not the collection agency but the firm employing them was the defendant in a consequent action, decided in favor of the debtor. "The letters in question which were set out in the petition were libellous per se. They naturally import dishonesty to the debtor. They immediately tend to detract from her reputation for integrity and fair dealing."

In writing the opinion in the Hitchman Coal case in 1917, Justice Pitney of the Supreme Court clearly set forth the broad general ground on which practices of this kind stand condemned. Suit had been brought to enjoin the efforts of a labor union to create defection among the employees of the coal company. "The familiar maxim, 'Sic utere tuo ut alienum non laedas,'—literally translated, 'So use your own property as not to injure that of another person,' but by a more proper interpretation—'So as not to injure the rights of another,'—applies to conflicting rights of every description. For example, where two or more persons are entitled to use the same road or passage, each one in using it is under a duty to exercise

care not to interfere with its use by others, or to damage them while they are using it." (k)

Another clear exposition of this newly developed right is in the decision of a leading case, determined by a Georgia court, and involving this principle. The agent for an insurance company published the photograph of one Paolo Pavesich, without first securing Pavesich's permission. Suit was brought by him for this trespass upon his right of privacy.

Using a Photo Is Dangerous

THE opinion was in part: "The right of one to exhibit himself to the public at all proper times, in all proper places and in a proper manner, is embraced within the right of personal liberty. The right to withdraw from the public gaze at such times as a person may see fit, when his presence in public is not demanded by any rule of law, is also embraced within the right of personal liberty. Publicity in one instance and privacy in the other, are each guaranteed. If personal liberty embraces the right of publicity, it no less embraces the correlative right of privacy; and this is no new idea in Georgia law. In *Wallace vs. Georgia*, 94 Ga. 732, it was said, 'Liberty of speech and writing is secured by the constitution; an incident thereto is the correlative liberty of silence, not less important, not less sacred.' The right of privacy within certain limits is derived from natural law and guaranteed to persons in this state by the Constitution of the United States and of the State of Georgia, in those provisions which declare that no person shall be deprived of liberty except by the process of law." (l)

Whether or not the debt is owed is entirely immaterial from the right of the debtor to compensating damages. The employment of oppressive measures are as far beyond legitimate collection methods as bodily injury or the restriction of freedom. The debtor has a right to be let alone in his life and work, regardless of obligation, except so far as the creditor avails himself of legally recognized means.

This same principle of the right of privacy occurs in a leading case in California, where the character and domestic relations of one of the parties was wantonly destroyed.

GABRIELLE DARLEY had been a notorious prostitute in San

Francisco. She was arrested and tried for murder. Acquitted she married Bernard Melvin; moved into a new neighborhood where, shielded by the name of her husband, she lived a decent and respected life. In 1925 appeared a moving picture, "The Red Kimono." The scenario told the story of her life, her former name and her married name as well. There was no departure from the truth in the least particular. The court held she was entitled to recover. It was her life, her experience, her suffering. Her right of privacy could not be thus exploited and commercialized. Those who had trespassed in this manner were forced to pay in damages. (m)

In 1939 was a similar instance. Mau was a chauffeur. On the night of March 22, 1937, he was held up and shot. Recovering from the wounds he developed a neurosis, where a mere mention of the incident caused acute mental suffering. On August 4, 1938, a broadcasting company put on a program, "Calling all cars." On that program was given a detailed account of Mau's experiences. "This is an action involving the right of privacy," said the court, "or what Judge Cooley has called, the right 'to be let alone.'" (n)

Professor Wolff, writing in the Yale Law Journal in June, 1938, under the title, "Unfair competition by truthful disparagement," said: "There can be but little doubt that the question will soon come before the courts whether truthful defamatory statements or expressions of unfavorable opinion about another's goods or business practices, might also constitute enjoined unfair competition . . . It has been held to be an unlawful invasion of that right (right of privacy) to comment in public on a man's personal affairs when no financial loss was caused and when the injury inflicted was injury to personality only . . . 'Where the gravamen of the action is to enjoin unfair competition the question of libel and slander is only incidental to the action and such an action is not one to enjoin libel and slander'."

Whether the offense thus committed is named defamation, invasion of privacy, libel, or unfair competition, the immateriality of the truth or falsity of the statements causing the injury recall the comment of Blackstone. "The ill advised publication of the truth concerning a person would be more likely to provoke him to a

breach of the peace than would be the publication of a falsehood which he could disprove," and the more cogent though perchance, less erudite verse of Moore:

"It was nuts for the Father of Lies
As that wiley fiend is named in the
Bible,
To find it settled by law so wise,
The greater the truth, the greater
the libel."

References

- (a) New York State Assembly Bill 1565.
- (b) Mark Sullivan, "Our Times," vol. 3, page 345.
- (c) Harvard Law Review, vol. 4, page 193.
- (d) Oliver Wendell Holmes, "The Common Law," page 36.
- (e) Keating vs. Conviser, 127 Misc. 531: 219 A. D. 836.
- (f) Brents vs. Morgan, 221 Ky. 765: 299 S. W. 967.
- (g) Ferdon vs. Dickens, 161 Ala. 181: 49 So. 888.
- (h) Brents vs. Morgan, 55 A. L. R. 972, note.
- (i) Tuyes vs. Chambers, 144 La. 723: 81 So. 265.
- (j) Zier vs. Hoflin, 21 N. W. 862.
- (k) Hitchman Coal and Coke Co. vs. Mitchell, 245 U. S. 229.
- (l) Pavesich vs. New England Life Insurance Co., 122 Ga. 190: 50 S. E. 68.
- (m) Melvin vs. Reid, 297 Pac. 90: 112 Cal. 285.
- (n) Mau vs. Rio Grande, 28 Fed. Suppl. 845.

Further reports of
Credit Congress
addresses will be
given in the July
and August issues
of Credit and Fi-
nancial Manage-
ment

New Orleans Credit Congress Is Big Success

CM The 46th Annual Credit Congress of the National Association of Credit Men is now a part of the tradition of our National organization.

Meeting in New Orleans on May 11th to 15th, this annual session boosted the high-mark for such gatherings and sent the more than 1,500 registered delegates to their homes with new ideas and new inspirations for their professional work during the coming year.

Every one of the large number of delegates voiced loud praises for the gracious hospitality of the Louisiana organization under the leadership of Ned Pilsbury, Past National President, R. L. Simpson, a past National

Director, who acted as Vice Chairman of the Convention Committee, and a long list of committee members and hostesses who all cooperated so willingly in making the 46th Annual Convention such a big success.

This Credit Congress, presided over by National President John L. Redmond, of New York, will be recognized in years to come as an outstanding session both because of the gracious hospitality of the Louisiana people and also because of the excellence of the program at the General Convention sessions as well as the important programs presented by some twenty-six Industry Groups which were held all day Wednesday.

One of the features of the New

Orleans Credit Congress remarked by many was the large number of credit women in attendance. The more than 1,200 women N. A. C. M. members now enrolled in 32 local groups held several important meetings at breakfast, luncheon, and dinner during the week.

The Zebras from all over the United States were on hand in large numbers and held their Annual Election and Dinner on Wednesday evening. This Annual Dinner is an occasion looked forward to by the Zebras who play such an important part in the promotion of Association membership in many localities.

IT WOULD take many pages to completely cover the extensive



The President-Elect and his three Vice-Presidents—(Left to right) R. W. Watson, Los Angeles, Vice-President representing Western District; President-Elect Ray Wilson, Salt Lake City; Bruce Tritton, Cleveland, Vice-President representing the Central District and Paul Miller, Atlanta, Vice-President representing the Eastern District

program of entertainment provided by our hosts.

This program started on Sunday evening with an informal reception in the main lobby of the Jung Hotel with an excellent musical program later in the evening when the Ray McNamara String Orchestra and the "Saturday Nighters" entertained in the Tulane Room which was the General Convention Assembly Hall.

On Monday night the several visiting Associations held their Sectional Dinner. The New York and North Eastern delegates gathered at the Mirror Room at the Jung Hotel under the direction of Secretary-Manager Clarence L. Riegel, of the New York Association. On the same evening the Chicago Association Dinner was held at the Roof Garden of the Jung Hotel where many of the Mid-Western delegates also assembled. The Executive Committee and Group Presidents of the National Credit Women's Group held its first meeting at the La Louisiane Restaurant on Monday noon. The climax of the first day's entertainment came with the Annual President's Ball and Reception held in the big Assembly Hall on Monday night.

On Tuesday morning the Annual Credit Women's Breakfast held in the Roof Garden at the Jung Hotel was attended by a large group of visiting delegates. This breakfast was presided over by Miss Alleen Harrison of the Tafel Electric and Supply Company, Louisville, who acted as chairman this year of the National Credit Women's Executive Committee. On Tuesday noon the ladies of visiting delegates were guests at a luncheon at Arnaud's Restaurant followed by a tour of the Old French Quarter of New Orleans. Tuesday evening the Credit Women's Dinner, held at Antoine's Restaurant, was one of the social highlights of the week's entertainment.

The Western Division Dinner, always noted as being tops in a friendly get-together for those west of the Missouri River was one of the drawing cards for many delegates. This was presided over as usual by Owen S. Dibbern, Manager of the Western Division for the National Association.

Group Sessions Wednesday

AS WEDNESDAY was devoted exclusively to Industry Meetings, many of which lasted during

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(* Elected at New Orleans. All others holdover.)

long sessions both morning and afternoon, the entertainment program for this day was limited to an informal dance held at the Grand Ballroom of the St. Charles Hotel.

On Thursday night, as a wind-up for the Convention sessions, the Mardi Gras Ball in the Tulane Room at the Jung Hotel provided a fitting

climax. Many beautiful costumes were in evidence, and the delegates brought away a definite sense of the spirit of play which New Orleans features during its Annual Mardi Gras. On Friday, the delegates remaining in New Orleans were guests on a schooner ride on the Mississippi River on the S. S. (Cont'd on p. 36)

Executive Manager Reviews NACM Objectives and Reports on Year

NACM Article II. of the Constitution of the National Association of Credit Men clearly defines the objectives of this organization. For ten years it has been my responsibility as Executive Manager to direct the policies established by the members through the National Board of Directors. It is appropriate that I give an accounting of our stewardship during the past decade to the members of our organization, beyond the annual report that is presented at each Credit Congress.

Let us consider how well we have kept in mind the original objectives of our Association. I quote the first section of Article II. of our Constitution.

The objects of this Association shall be to organize into a national body individual credit granters and Associations of Credit Men located in various cities, states and other political subdivisions of the nation and to include individuals or groups of citizens of the United States wherever located and engaged in American commerce and through such organization to unify and establish more firmly the basis of commercial credits.

During the past ten years—and, in fact, during the forty-five years of our existence—this Association has constantly sought the attainment of the first objective of our Constitution. Today as we look back upon our record we find we have not only a nationwide organization but also representation beyond our own borders, for our interests extend to our territories and, through our Foreign Department, into every corner of the globe. The pioneers who incorporated this provision into our Constitution could scarcely have visualized the great growth—in numbers and in influence—which they began in Toledo, Ohio, in 1896.

Herewith is presented the preliminary portion of Mr. Heimann's Keynote Address, in which he took occasion to review the objectives of N. A. C. M. as set forth in the national constitution.

Ten Depression Years

DURING these forty-five years we have witnessed many attempts by private organizations to duplicate the credit men's own cooperative services. From time to time they have come into the market but they have lacked the outlook so characteristic of our professional, non-profit-making organization. These organizations have usually sought to establish credit services only in markets where profitable operations were possible. They have tried to skim the profit-laden cream from the better markets, leaving the skimmed milk for the more altruistic organizations. But the credit executives of the nation have seen these efforts in their true light. And they have acted accordingly.

During the past ten years we have added to our representation in various territories and we have strengthened it at weak points. We have as a unit survived the worst depression that this country has ever seen. We have faced a budgeting task—not alone in the National, but in each local Association—that called for the very best effort on the part of the administrative personnel. Today, after a ten year period of economic depression, we stand with our forces intact ready to serve the nation in this emergency period with the same efficiency and devotion to our ideals that has marked our progress during the course of the past decades.

Here is the second of the objectives of this organization.

To seek the enactment of laws, and the correction and modification of existing laws, federal and state, so as to assure equality and justice in credit transactions and promote the nation's commerce.

Let us look at the record. We defy anyone to point to a better legislative record in the interest of sound business than that which has characterized our effort. Not only have we sought to strengthen further the credit laws on the statute books, but we have constantly kept abreast of new situations. When the National Bankruptcy Act had outlived its usefulness, we discharged our responsibilities by advocating amendments to bring it down to date. From this effort came the new law and our committees are watching its operations to see if further changes may be needed. When the protection of creditors seemed to be the last consideration of legislators, when debtor psychology ran rampant, your organization valiantly fought to enact laws for the protection of creditors in matters of government operations and public contracts.

Leadership in Legislative Action

HERE again, this legislative objective is one that could only have an appeal to a professional organization. The very nature of the organization places upon it the responsibility for executive leadership in legislative activity affecting credit. You who are daily engaged in credit work recognize that your local Association and your National organization, through this legislative activity are constantly working for your protection. Sound legislation is the foundation stone upon which you can erect a sound superstructure of commercial credit and thus make secure the promotion of the nation's commerce. Sound credit laws accomplish a three-fold purpose.

First, they enable us in this nation to build a business economy without parallel in the history of the world.

Second, the standard of living of our country has risen to become the objective of all the world, and that standard is based on sound credit operations.

Third, through the exchange of knowledge made possible through the Association's efforts and contacts, we have contributed to a better understanding of mankind and thus done our bit towards maintaining the progress of civilization.

Our third objective is this:

To improve methods and principles for the interchange of credit information.

Let us pay tribute to the credit profession and the credit executives for the courage they displayed in the development of our Credit Interchange System. It is, to my mind, more than significant that while some private organizations have endeavored to establish a limited ledger experience exchange service, none have been courageous enough to attempt the establishment of a *nationwide* service. Their efforts have been concentrated in an industry or in a market or in markets representative of industries. They have not launched into the greater and more difficult national service.

The pioneering credit executives who established Credit Interchange on a national basis knew that there were certain markets in which the cost of coverage would be rather high. They knew that in some areas credit information could not so easily be gathered, that the cost would be relatively high. But they also knew that, to render a national service, these situations had to be met and costs averaged. To their everlasting credit let us note that they had the courage to do so. They knew that if they merely gave credit information within one industry soon there would be no reliable over-all credit information for any field.

Only NACM Could Accomplish This

THAT is why we compliment the pioneer members on their courage and the present credit executives for their part in the maintenance of our National Credit Interchange System. It is a service that could not have been established on a national

basis except by an organization such as ours. It is a service, which, if properly developed, can and will insure the conservation of the nation's commercial assets by reducing credit losses; a service that can translate itself into reemployment to the extent that the savings in the reduction of credit losses will be available for new ventures; a service that can give credit executives renewed and increasing confidence in each other.

Fourth among our objectives is this:

To encourage training for credit work through departments of colleges and universities; by correspondence courses and the grouping together of the younger men and students in an Institute of Credit.

Need I dwell at length upon our discharge of this responsibility? Today we stand at the peak in our Credit Institute membership. We cooperate with scores of universities. Throughout the length and breadth of this land our educational work is no longer a theory but a practical accomplishment with an enrollment of thousands. This year we add to it the Summer School for Credit Management. The day will never come when we cease our interest in education. Quite the contrary, the long term trend is bound to be one of expansion, interrupted only now and then to review the progress we have made so as to build a sounder foundation upon which we can move forward.

As our fifth objective we have this:

To disseminate useful and instructive information on credit and commercial subjects.

Our professional magazine, **CREDIT AND FINANCIAL MANAGEMENT**, has improved with the years—and I quote not my own appraisal but rather the judgment of men who have been in this work since the founding of our organization. Through the monthly economic letter we review the business scene and analyze future prospects. In the forums of our local organizations we present timely business subjects. In the group exchanges we carry on a constant economic laboratory in which the problems of credit are discussed.

Our sixth objective reads:

To urge business practices whereby credit commerce may be improved and the nation's welfare advanced.

Long ago we established a Code of ethics for credit management. That Code has been preached from the time of its adoption. Yes, it has been more than preached, it has been put into practice. The understanding between credit executives, the spirit of tolerance and of cooperation reflects our contribution in this respect more clearly than feeble words of mine could possibly undertake.

For our seventh objective we have:

To provide for the treatment of difficult and insolvent estates economically and wisely, by the installing of bureaus.

Our Adjustment Bureaus

OUR Adjustment Bureau System has met this objective. Here we have the finest trained personnel in this line of service in the nation. We have had the courage during the course of the past years to draw when necessary upon surpluses to keep ready for action the skilled personnel that mans the department. It is your department. If serves you and your company. It is entitled to your whole-hearted support. You have set a standard in these adjustments and liquidations that must be imitated by everyone who even attempts to do this work. Your leadership in this field is unquestioned. You as members must continue to make it so.

As a corollary to this work, when the need arose for a national collection system we established it. It has been and always will be the policy of this organization to reflect its members views and when the members, through sad experiences, decided they would establish their own collection division, a nationwide system was put into being. We have not sought merely to take the easy cases. We have been willing to undertake all work that is to the interest of the greater objectives enunciated in our Constitution. As a result we see that the ethics in the collection field today, compared to what they were before we went into the business, are encouragingly high. If the standard we set, and set it we did, forced others to adopt a high sense of responsibility, you as credit executives should recognize the need of continued patronage of your collection division. It is your department. You control it and, because it is your department, you should patronize it.

The eighth object- (Con't on P. 25)

This is the famous
KARDEX "Reveal All"
VISIBLE MARGIN OF CONTROL



LATEST DISBURSEMENT

This $\frac{1}{4}$ " Signal reveals the date of last disbursement.

APPLETON ELECTRIC COMPANY

WISCONSIN ELECTRIC POWER COMPANY

Rear Radius Rod

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(Top) Executive Manager Heimann presides at the luncheon for local presidents. (Center) Ray Wilson, president elect, presides at the Resolution committee session. (Bottom) Speakers' table at Foreign Credit luncheon

(Cont'd from P. 25) ive is this:

To investigate and prosecute relentlessly fraudulent debtors.

A record of over 1600 convictions testifies to our discharge of that responsibility. Our Fraud Prevention Department has saved the nation millions of dollars. It has brought to justice the dishonest men who violate sound credit principles. It stands as a constant deterrent to those who would seek to ply their nefarious schemes in the field of credit. You may search the world over for a duplicate of this department and you will search in vain. No other organization could handle the job as efficiently.

In our ninth objective we are charged to set high standards for commercial practices; to promote cooperation between credit grantors, and a more thorough understanding of credit principles; to perform such other types of work as the advancement and protection of commercial credits may require.

Our Foreign Department

NEED I detail our discharge of responsibilities under these broad objectives? Let me, however, say a word about our Foreign Department. Here is a cooperative movement that has given to your organization the most efficient foreign credit department of any organization in the world. And those words are not mine but those of authorities in that field.

As the federal government became more of a factor in business we had the courage to establish the Washington Service. Thousands of members have been served faithfully and well. We are maintaining it and we ask your continued support of it. It is a service that will grow as the need for it grows and we pledge you to do the very best we can to fill your Washington needs.

There are, of course, other services I could mention but by now I think you will agree that we should all be proud of this accounting. Certainly we have adhered to our original objectives.

Sometimes I feel we do not fully appreciate our own strength! At all times it may not be realized in how many ways we seek to protect the credit structure of this nation. It is a delight to give such an accounting and when I said that it was up to me to report as to our stewardship I cer-

"Yes, yes, yes...
but can it cook?"



—says the Little-Man-Who-Wants-to-Know

- "Well, hardly! . . . This is a NATIONAL Typewriting-Bookkeeping Machine, usually used by stores and other businesses for making *accounts receivable* records. Easy to learn, easy to operate, fast, flexible and ready for anything —"



©NCR

- "Wait—will it solve problems of overhead and overtime?"
- "It certainly helps! This machine posts statement and ledger at one operation, prints proof strip, prints credit items in red, keeps all posting work always visible, accumulates necessary totals—gets more work done better and sooner, at lower cost—"
- "Saves time, I presume?"
- "Time and trouble and money! . . . You see, NATIONAL makes a complete line of business machines to handle records and control money—
- "Machines for listing, posting, proving, analyzing, bookkeeping, check writing and signing, remittance control and more—"
- "That's enough! CONTROL sells me! . . . And I'll spread the good news!"
- "And remember—these machines pay for themselves many times over! They are made by the makers of NATIONAL Cash Registers—engineered, sold and serviced by specialists. Whatever your problem, see NATIONAL first!"
- Call the local office TODAY.

INVESTIGATE

National ACCOUNTING MACHINES!

THE NATIONAL CASH REGISTER COMPANY • DAYTON, OHIO
Cash Registers • Posting Machines • Check-Writing and Signing Machines
Bank-Bookkeeping Machines • Typewriting-Bookkeeping Machines • Analysis Machines

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National



(Top) Miss Aileen Harrison presides at Credit Women's breakfast. (Center) New Orleans belles as hostesses.
(Bottom) Credit Women's banquet at Antoine's.

tainly had in mind making this report on behalf of all those who shared this responsibility, particularly the members of the National Board, the local Boards, National and local officials, the National and local staffs and, finally and most important, you—the individual members.

Our Service Objectives

WE want to continue to strengthen our services both intangible and tangible. We shall never lose sight of the objectives so well outlined in our Constitution. I make an appeal to the membership to support not some but all of our activities and thereby increase the scope of the general work of the organization. You make a definite contribution to legislation every time you take an Interchange contract. Through a direct subscription to the legislative activity you likewise contribute to other service departments. You cannot be interested in one without automatically being interested in the other. If your interest is solely in education remember that every time you participate in an Institute class you indirectly benefit the service department by making the student conscious of its efficiency. So there can be no such thing as a member interested in one service to the exclusion of the others. As in a large family, we may from time to time superficially indicate a bit more fondness for one or another of our children. That is natural but as the head of the family we know that in the last analysis all of our departments are equally important to our objective, as so clearly outlined in our Constitution, of rendering an efficient service in all of our activities.

Let us keep our minds focused upon these great objectives of serving and making sound the commercial credit of our nation. As we in our field do this we shall set an example that can and will contribute greatly to an improved standard of living. The conditions from which dictators spring are not found in nations that are well fed, housed and employed. Such conditions offer no sustenance for poisonous hatreds and animosities. They present, instead, peace and contentment and an understanding among mankind that disavows military victories as an objective but keeps its eyes focused constantly upon the continued progress of civilization.



U. S. ARMY PHOTO

Making Army Intelligence photos from a high altitude—with a Fairchild K7C Aerial Camera.

"Eyes" for airplanes come from Fairchild Aviation Corp., in Jamaica, Long Island. The need for these superb aerial cameras has increased Fairchild's business *over 2000% in the last 2 years!* Now, such expansion would cause severe "growing pains" in any organization less on its toes than Fairchild. The executive staff, responsible for this enviable condition, has been enlarged only slightly — yet its executive capacity has multiplied amazingly. How?

C. A. Harrison, Vice President, credits Ediphone Voice Writing for much of this increased accomplishment. Notes, data, specifications, correspondence — written work is *talked away!* Desks are cleared for action — minds cleared for major matters — waste motion and lost time have been cut to the minimum . . . And Ediphones can do the same for you.

EDISON VOICEWRITER Ediphone



Travel keeps Mr. Harrison (above) away from his office from 2 to 4 days a week — "yet," he says, "with my Ediphone I keep caught up." Mr. Harrison's secret for getting *more* things done *faster* is yours for the asking. Phone The Ediphone (your city) or write Dept. CF-6, address below, for a *free* demonstration.

Thomas A. Edison, Inc., West Orange, N. J. (or) Thomas A. Edison of Canada, Ltd., 610 Bay St., Toronto

Annual Report on Past Year By the Executive Manager

Since a report on membership is being given at this Convention by the Committee Chairman I shall not comment in detail upon that most important phase of our work. I do want to again emphasize, however, the self-evident truth that those organizations which make good showings year after year are those which have a consistent and well organized program of membership operations. This program must apply not only to the securing of new members, but to the prevention of resignations. Such prevention of resignations comes about through providing a high quality of service, through keeping the new and old members constantly educated about the service rendered and through a regular schedule of contacts with the membership. I urge upon every local Association the necessity for such a well ordered program if we are to have the solid basis for the advancement in members and prestige which our Association merits.

During the past year we have continued our activity and progress in the various phases of our work. This applies both to our tangible service and to our so-called intangible or more general services.

During times of uncertainty, both at home and abroad, the value of our Interchange Service to American business has become increasingly important. In my Keynote Address I expressed my views as to the value of this service and as to the splendid work which has been done. I shall not repeat those views here except to urge upon each one of you again the need for full understanding of this service and for your active support. Aside from the normal development of the service during the past year, I have to report two special developments:

First, the survey inaugurated by the Credit Methods and Practices Committee. This survey has been conducted by an outside agency selected by the Committee for the purpose of getting an unbiased appraisal of the services and with the idea in mind of continuing still further improvements. Your officers will give

serious attention to any recommendations made which seem conducive to such further improvement.

Automatic Revision Grows

PERHAPS the other outstanding thing has been the emphasis placed upon Automatic Revision Contracts and the growth of this type of Interchange Service. If such Automatic Revision Contracts have not been thoroughly sold to your own organization, I suggest that an appraisal made of the status of Interchange in organizations where emphasis has been placed on that service will convince you of the value of this activity.

Our work in the field of Adjustments and Collections has proceeded along its usual course. The scope of the inspection work of this department normally covers the following points, together with any special inspection work for which the need may arise at any time:

1. Verification of funds in the bank as of a certain date, including operating and trust funds where information is available.

2. Examination of methods of operating, minute books, insuring and bonding of employees, collection files, estate records of open cases as well as those closed during a twelve month period.

3. Preparation of statistical information for a twelve month period on collection and estate cases.

4. Examination of procedure for any indication of unauthorized practice of law.

5. A check of ethics in handling estates.

6. Review of financial statements.

7. Reporting on the results of inspections and submitting suggestions and recommendations.

In addition to the general supervision and inspection work this department has, during the past year, prepared statistical data for the Secretary-Managers having to do with a comparative cost and income record of various Association departments so that the Manager of each organization may have a basis for a comparison of his own expense with that of other organizations.

THE volume of work in the Association's Washington office increased substantially during the year, largely as a result of activities involving credit aspects of the defense program. Outstanding among the legislative activities of the office during the year were:

1. Participation in the development of an amendment of the Bankruptcy Act dealing with supervision of bankruptcy administration and changes in the referees system.

2. Work in connection with federal and state taxation.

3. Activity in connection with legislation enacted as a part of the defense program.

The bankruptcy legislation referred to was an outgrowth of the study and report of the Attorney General's Committee on Bankruptcy Administration. Prior to and after the submittal of the Report of the Attorney General's Committee the Association's Washington representative maintained close contact with the Committee's staff and members and cooperated in furnishing information and suggestions in connection with the interest of creditors in this important matter.

As a member of a special committee of the National Bankruptcy Conference our Washington representative also assisted in the preliminary drafting of legislation based on the report which has been introduced in Congress. The legislation proposes to place supervision of bankruptcy administration in the Administrative Office of the United States Courts and to establish a system of full-time referees in bankruptcy on a salary basis. The bill represents a careful study of the problem and, if enacted into law, should effect a material improvement in bankruptcy administration.

The principal tax work during the year involved first, the presentation of information and evidence in opposition to numerous features of the excess of profits tax bill and, later, the preparation of a program and material to be presented to Congress in connection with further revision of the tax laws. This work involved the collection of information concerning simplification and rationalization of the tax structure, and more economical and efficient tax administration. Presentation of this material has been made to Treasury Department officials and members of Congress, and arrangements made for testimony be-

fore Congressional hearings. At the same time, a continued effort has been made to increase the number of tax committees of local Associations to prepare for effective work in the field of both federal and state taxation as it affects credit conditions.

Credit Aspects of Defense

THE two most important legislative aspects of the defense program in which the Association has taken action were the law permitting the assignment of claims under defense contracts and the various laws permitting the waiver of the Miller Act payment bond requirement. During consideration of the Assignment of Claims Bill the Association attempted to have an amendment adopted which would provide adequate protection for creditors in connection with such assignments. While the amendment was not adopted the efforts of the Association succeeded in focusing attention on the problem with beneficial results.

The proposals which have been approved by Congress, permitting a suspension of the payment bond requirement on certain types of defense contracts has been of great concern to our members because in some instances it weakens the protection against credit losses of material suppliers on defense contracts. Since the beginning of the defense program, the Association has registered its opposition to all proposals permitting the payment bond to be waived and has taken the matter up with officials of the government departments and of the Defense Advisory Commission. While Congress has, up to the present time, seen fit to grant permission to waive the payment bond it is gratifying to report that the efforts of the Association have focused serious attention on the problem and made government officials and members of Congress more conscious that the danger of exposing creditors to avoidable losses and delays in payment under defense contracts can become a definite obstacle to the defense program itself.

The number of inquiries from members which have been received in the Washington Service Bureau during the past year substantially increased. In some months, since the beginning of the defense program, the inquiries were double the number handled during the preceding year. Most of the increase has been directly attributable



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Modern office machines furnish information and reports while they are news, not history; calculate earnings and keep the records that meet expanding payrolls promptly; provide stock and parts control figures that insure uninterrupted production.

For many years Burroughs has supplied business and industry with the machinery of control.

Now—when there is less time to achieve maximum production—today's Burroughs machines provide the required records and figure controls in less time, with less effort, and at less cost.

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to the defense program and the need of our members for prompt and accurate information from Washington concerning defense contracts, matters of policy and procedure and other aspects of the program. A further increase in the work of this Bureau is expected during the coming year, partly as a result of the new Washington Service Contracts which have been negotiated with many of our local Associations.

The events of the past year have again demonstrated clearly the importance of the work of our Washington office in the legislative field and in the rendering of information and assistance to individual members. The probable trend of events in the next few years will certainly increase the importance of that work as well as its volume.

Development in Education

SINCE the Development Fund was put in use in 1937, 47 Chapters of the National Institute of Credit have been organized or revived. Adding to these the 16 Chapters in existence in 1937, there are now a total of 63 Chapters. Five of these were dormant during the past year. Eight new Chapters started activities during the Association year of 1940-41. Institute registrations as of March 31st, 1941, totaled 1,916.

There were, as of March 31st, 1941, 427 Fellow Awards and 999 Associate Awards outstanding. 75 Fellow Awards and 141 Associate Awards were issued in the past 11 months. 1,588 course certificates were issued. A large number of course certificates will be issued during the next 2 months covering courses completed during the second semester.

Thirty-nine universities and colleges are cooperating with local Chapters in offering the formal courses of the Institute. Special tuition rates are in effect for Institute members in 12 universities.

Excellent progress is being made by several Chapters in the establishment of Chapter libraries.

Several Chapters, notably New York, have conducted Seminar Classes with excellent success. 106 Seniors were registered for the Seminar last year in New York.

An effective Alumni Group of Associates and Fellows has been organized in New York. Plans of this group have been developed with a view toward tying up with a nation-

wide organization. The Alumni Association promises well to be the learned society of Credit Management from which much may be expected in the way of contributions to the credit field in the form of creative literature and significant research.

Local Women's Groups of 13 cities have financed Chapter scholarships. These scholarships are allotted to deserving women on the basis of competitive examinations. The National office has allotted one Scholarship which is assigned by lot to one of these 13 groups. Last year Minneapolis won the drawing which was conducted at the Credit Women's breakfast at the Credit Congress.

Cooperation continues in several cities with Retail Credit Associations to the extent of joint committees, publicity and formal courses.

Looking to the future, the Institute is destined to a normal of 60 Chapters under present personnel and budget. Registration should reach an annual peak of approximately 2,000. The draft and war conditions may cut this as much as 25%. It is imperative that a continuous program of Education be maintained in spite of handicaps of war conditions if credit management is to maintain its high standards and solve the problems of re-adjustment to a peace economy.

Most satisfactory arrangements have been made with the Babson Institute of Business Administration for a short intensive Educational program for Credit Executives. The Summer Institute of Credit Management, to be conducted on the Babson campus August 10 to the 23rd, will undoubtedly become one of the most outstanding developments of recent years in credit education.

Practically no publicity has been given to the Summer Institute because from the very first announcement it appeared that there might be a serious problem of over-registration. Up to May 1st 121 reservations for registration had been received.

An eminent faculty has been obtained to teach the 8 courses selected as the curriculum by the Advisory Committee on Credit Education. In addition to the 8 courses, an evening program of forums is being arranged with speakers of national prominence. The cost has been kept to a minimum of \$75.00 covering tuition, room and board.

The high standard of our magazine

has been continued, with special emphasis being placed upon features of particular interest to those engaged in credit work.

In the other activities of the Publications Department I have the following to report:

1941 Credit Manual Sold Out

THE direct mail campaign on the sale of the 1941 Credit Manual of Commercial Laws has just ended and our entire edition has been sold out. Promotion activities for this book were started the early part of September and the book was published November 15th. As a large percentage of the buyers are non-members, we have been supplying these names as prospective members to local Associations on request. New lists are being checked for our coming campaign which will start again in September.

The Publications Committee has just completed the revision of all our Financial Statement Forms. The entire membership was circularized in addition to all regular buyers of forms. Folios of samples are being sent on request to members and our sales are showing a steady increase. A folio of samples is being sent to each new member for their files.

The Monthly Business Review is now being sent to all but a very few small Associations. The distribution of this letter is carefully checked each month.

During the past fiscal year the Public Relations Department has maintained the same high rate of clippings returned as prevailed in the year before. This total of some 6,000 clippings returned from newspapers and magazines is practically double the total of a decade ago.

The department has also cooperated with the Credit Fraternity Fund of the New York Association as to programming, not only its publicity work, but also developing with its officers the Fund's current membership drive.

During the year it cooperated with the National Piano Manufacturers' Association in obtaining credit executives to speak at Sales Clinics in 12 cities through the country on the credit aspect of selling.

Over 100 trade publications have carried feature articles of a specific credit or general business nature during the past year.

The department has also arranged

for two series of radio broadcasts. One of these featured the work of our Credit Women's Clubs and the role of women in the field of credit. The second presented a three-months series of weekly talks on the Fraud Prevention work of the Association.

The department has also edited the Special News Supplement containing the Members' Bulletin and the News About Credit Matters section in **CREDIT AND FINANCIAL MANAGEMENT**.

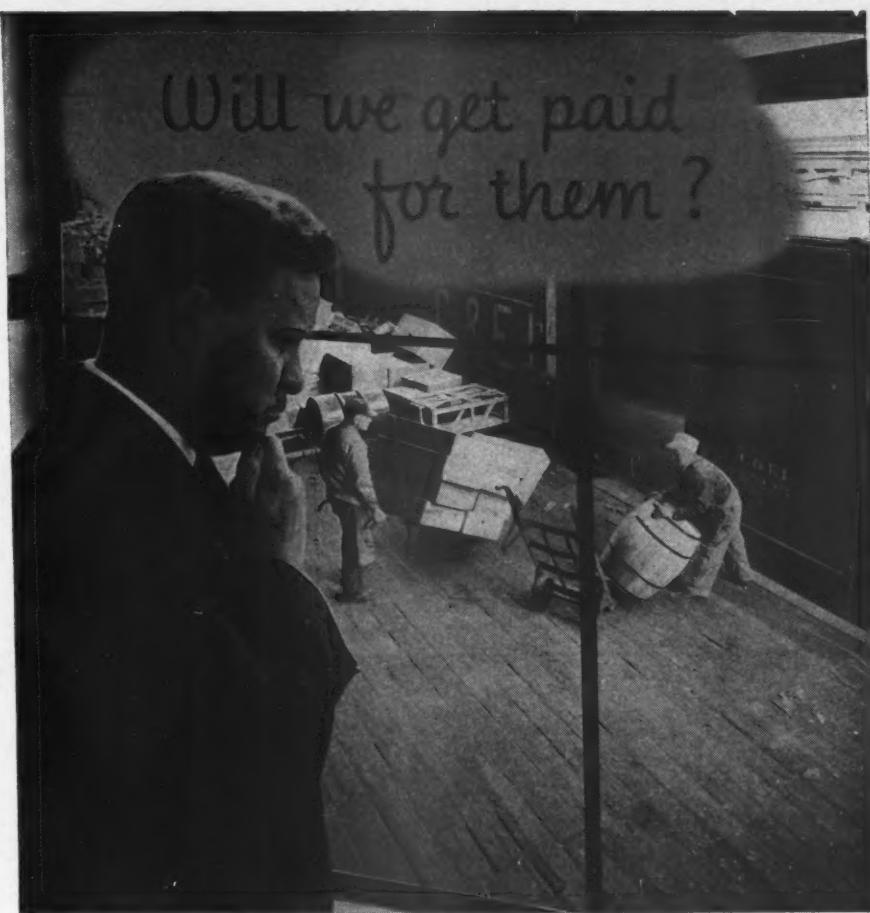
It has continued the news service inaugurated the year before to provide editorial material for editors of local credit Association publications and it has continued, in cooperation with the Education Department, to work with the U. S. Department of Commerce in the regular and special surveys jointly sponsored by the Association and that Department.

Ever-increasing export controls established both abroad and at home, together with the host of complications brought about by war generally, have only served to emphasize the value of our Foreign Department and the Foreign Credit Interchange Bureau which has for more than twenty years been serving those of our members who engage in foreign trade.

Foreign Interchange

ORGANIZED in 1919, the Foreign Credit Interchange Bureau has, over the past score of years, developed a service for exporters that adequately covers all of their foreign credit, collection and exchange problems. Through a Weekly Bulletin, members of this Bureau are kept currently informed of all changes affecting world credit and finance. Under the Bureau's sponsorship, monthly Round Table Conferences on foreign credit, collection and exchange matters have been held for the last seven years. These Conferences are unrivaled for the effective assistance they render exporters seeking a solution to the perplexing problems that invariably arise in world trade. These Round Table sessions are attended by the outstanding exporters of the United States.

Under the auspices of the Bureau, monthly Group Meetings are held at which members, with a common interest in individual foreign buyers, discuss their particular industry problems, and the intimate details connected with such of their foreign accounts as have become delinquent and



ANOTHER SALE... *Perhaps!*

There goes your merchandise. There goes the result of your salesmen's spadework and of your credit manager's faith. There goes your working capital. For 30, 60 or 90 days, there will be nothing to show for it all but some intangible figures on a ledger page.

What is the actual value of your receivables? Which accounts will be paid? How many will default, and for how much? Nobody knows!

AMERICAN CREDIT INSURANCE

protects your receivables at a reasonable cost. Your capital is safe. Your profits are assured when you ship.

Our new booklet "Business Stability and Profits" fully explains the function of credit insurance in terms of your own business. It contains pertinent information about the credit risk problem and its relationship to profitable selling. Address Dept. 6C for your copy.



AMERICAN CREDIT INDEMNITY COMPANY OF NEW YORK

First National Bank Building, Baltimore
J. F. McFadden, President

OFFICES IN PRINCIPAL CITIES OF UNITED STATES AND CANADA

INSURANCE

A Bulwark of Credit

... This page, which is donated by one of its members, is used monthly by the Insurance Group of the National Association of Credit Men to foster a better understanding of insurance as an indirect guarantor of credit.

THE PROGRAM

1. To encourage a wider understanding among credit executives of insurance as a protector of sound credit.
2. To keep credit executives informed of the wide variety of insurance coverages which are available.
3. To promote the use of the official N.A.C.M. insurance statement form as a supplement to the financial statement.

Available Coverages

The following list is selective because of space limitations.

Accounts Receivable

Aircraft
Crash
Fire
Land Damage
Mooring
Theft
Windstorm
Aircraft & Motor Vehicle P.D.
Automobile
Comprehensive
Fire
Theft
Flood
Public Liability
Tornado
Earthquake
Explosion
Riot
Aircraft Property Damage
Glass Breakage
Collision
Property Damage
Non-Ownership
Drive Other Cars
Hired Cars
Loss of Use
Bailees Customers Floater
Bridge Insurance
Builders Risk

Consequential Damage

Contingent Liability—R.R. Sidetrack or Switch Lease
Credit
Demolition
Department Store Floater
Disability Insurance
Individual
Group
Dyers & Cleaners Floater
Earthquake
Electric Sign
Engagement Ring Floater
Equipment Floaters
Errors & Omissions
Exhibition Floater
Explosion
Extended Coverage
Tornado
Hail
Riot
Explosion
Smoke Damage
Aircraft & Motor Vehicle P.D.
Extra Expense
Fallen Building
Fire
Fine Arts Floater
Flood
Frost

Fur Floater
Furriers Customers
Garage Keepers Liability
Garment Contractors Floater
General Floater
Gold & Silverware Floater
Golf Floater
Gross Receipts Truckmen's Floater
Gun Floater
Hail Insurance
Horse & Wagon Floater
Installation Floater
Installment Sales Floater
Jeweler's Block
Jewelry—Fur Floater
Laundry Floater
Leasehold
Life Insurance
Individual
Key Man (in a business)
Group (including disability)
Live Stock Floater
Malicious Mischief—Vandalism
Manufacturers Output Floater
Marine
Hull (various forms)
Cargo (various forms)
Mortgage Interest
Morticians Equipment Floater
Motor Truck Cargo
Motor Truck Merchandise Floater
Motor Vehicle Property Damage
Musical Instrument Floater
Paraphernalia Floater
Parcel Post Floater

Patterns & Die Floater
Personal Effects Floater
Physicians & Surgeons Floater
Profits & Commissions
Public Liability
Radium Floater
Rain
Registered Mail
Rent—Rental Value
Riot & Civil Commotion
Safe Deposit Box
Salesmen's Sample Floater
Scheduled Property Floater
Scientific Instrument Floater
Smoke Damage
Sprinkler Leakage—Legal Liability
Stamp Collectors Floater
Stock Floaters
Stock—Reporting
Surety Bonds
(numerous forms of bonds)
Theatrical Floater
Tornado
Tourist Baggage Floater
Transportation Floater
Trees, Shrubbery—Lawn Improvements
Trip Transit Floater
Tuition Fees
Unearned Premium
Use & Occupancy (various forms)
War Risk
Water Damage
Wedding Presents Floater
Windstorm

Approved by National Association of Credit Men

INSURANCE STATEMENT

IMPORTANT The insurance you carry has a direct and extremely important bearing on your financial standing. Excellent firms with normally adequate capital resources have had their financial standing seriously impaired or become actually insolvent because they were inadequately insured.

Please give below details of the insurance you carry. This should be useful to you not only because it will help your credit standing but also because it will enable you to review your insurance problem. Your insurance adviser can supply details of most of the information required.

The forms of insurance listed represent those most commonly in force in the average commercial business. It should be clearly and definitely understood, however, that the mere fact of your carrying all these forms does not in itself prove that you are adequately insured. You may need additional forms, or fewer, depending largely on the particular nature of your business. These are points on which you should consult your insurance adviser.

	BUILDINGS	CO-INS %	MACHINERY & FURN. & FIXT.	CO-INS %	MERCHANDISE	CO-INS %	USE & OCCUPANCY	CO-INS %
Fire	\$		\$		\$		\$	
Windstorm								
Explosion								
Riot								
Sprinkler Leakage								

If your insurance is the "Blanket" type, show total amount (followed by the word "Blanket") in the "Buildings" column.

Steam Boiler —	Property Damage	\$	Steam Boiler —	Use & Occupancy,	\$
Machinery Breakdown —	"	"	Machinery Breakdown —	"	"
Transportation — Domestic Shipments			Transportation — Ocean Shipments		
Interior Robbery			Payroll Robbery		
Sale Burglary			Stock Burglary		
Fidelity Bonds			Check Forgery		
Public Liability on Premises			Employers' Liability		
Elevator Public Liability			Products Public Liability		
Auto Public Liability (owned cars)			Auto Public Liability (non-owned cars)		
Auto Property Damage (owned cars)			Credit Insurance on Accounts Receivable		
Workmen's Compensation — Are all your employees included?	Yes	No	Life Insurance (payable to business)		

If you hold property of others is your liability insured?

Yes No Does your Public Liability insurance cover construction work done on your premises? Yes No

If you have coverage liability of others under any contract such as lease, has your Public Liability policy been extended to cover it?

Yes No Have you made sure that all policies covering the same property or liability read alike? Yes No

If you carry any other insurance list details below.	\$	\$

Issued to _____ Issued by _____
Address _____ Address _____
Date _____ By _____ until _____

INSURANCE STATEMENT FORM

N.A.C.M. approved form. Procurable from the National Association of Credit Men, New York, or D. C. Campbell, Chairman, National Insurance Group, 844 Rush Street, Chicago, Ill.

When writing to advertisers please mention Credit & Financial Management

troublesome in any respect. This group actively serves such fields as food, drug, cosmetics, hardware, textile and lines of allied interest. It is unnecessary to point out that these sessions produce valuable information that is not obtainable elsewhere.

In its Foreign Credit Interchange report files, the Bureau carries information on 250,000 buyers throughout the world. These reports constitute the very backbone of the Bureau's service. These Foreign Credit Interchange Bureau reports list the ledger experiences of American exporters selling a particular foreign buyer. In the report is set forth through factual data and codes, just exactly how American exporters are selling this account; how long they have sold it; the highest credit each allows; the amount owing, past-due and how long past-due. In addition, the report shows the coded rating accorded the foreign buyer by each of the exporters reporting on him. These Foreign Credit Interchange Bureau reports are unequalled as a guide to correct judgment.

The Foreign Credit Interchange Bureau does not operate a collection service on foreign accounts, but it does make available to Bureau members its moral suasion letter service that has the remarkably fine record of 80% effectiveness in assisting members to secure payment from their delinquent foreign buyers without impairing the good will and friendly relationship existing between the seller and buyer.

As in the past, the Foreign Credit Interchange Bureau has endeavored to fully cooperate with all Government Departments and Agencies engaged in foreign trade activities, together with the various important national and local foreign trade groups throughout the country. As typical examples of this type of cooperation, we should like to cite the sponsoring by the Foreign Credit Interchange Bureau of the foreign credit, collection and exchange session at the 1940 Convention of the National Foreign Trade Council in San Francisco last July, and the luncheon that the Bureau sponsored in March 1941 at the Annual Get Together of the Export Managers Club of New York, at which Mr. John W. Pehle, Assistant to the Secretary of the Treasury of the United States made the

first public statement by any Government official on "Foreign Funds Control."

The Foreign Credit Interchange Bureau has always enjoyed the whole-hearted support of its membership, and every effort will be made to conduct the Bureau's operations in a manner that will merit a continuance of this confidence and support.

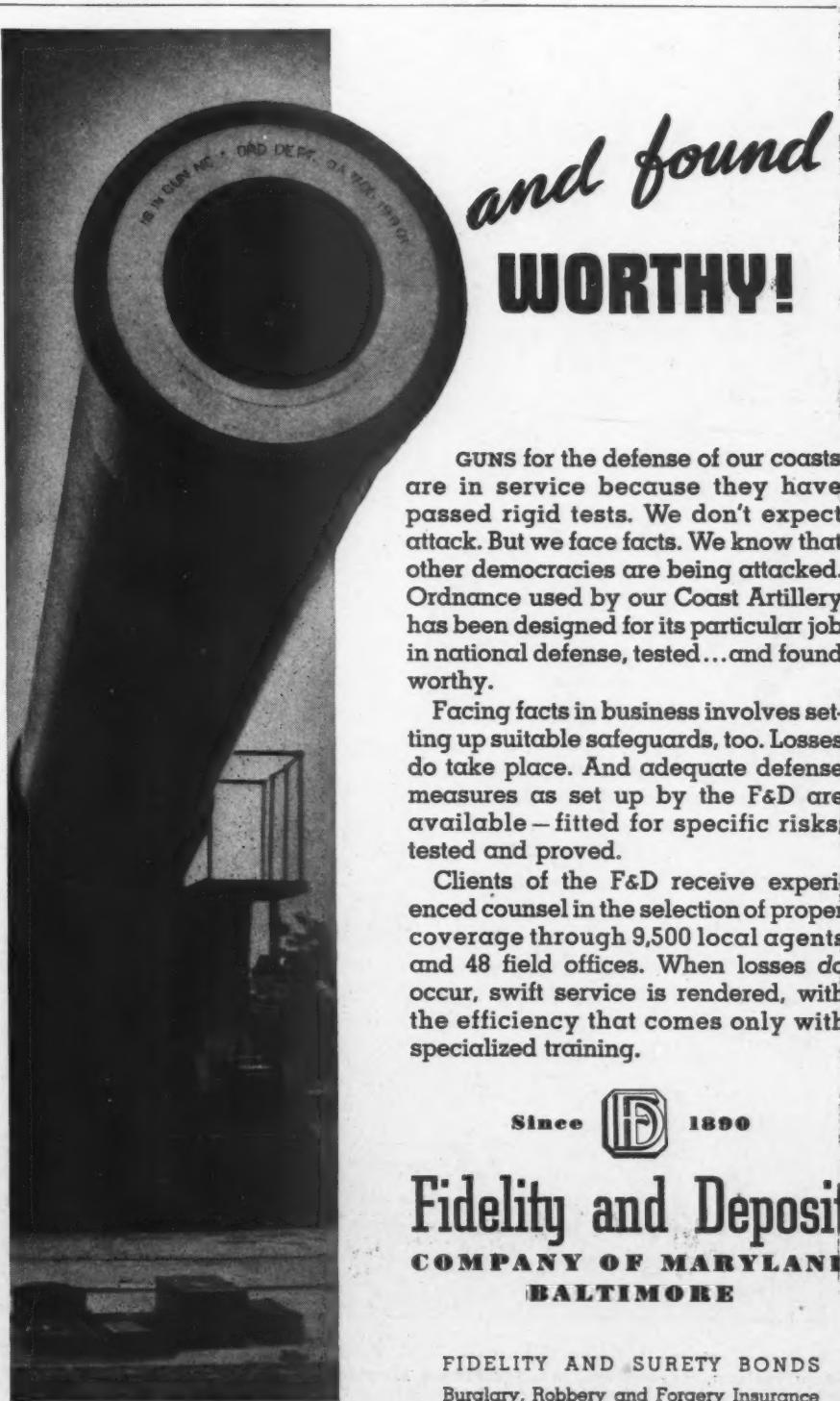
More Fraud Convictions

THE activities of the Fraud Prevention Department in its war on violators of the laws covering com-

mercial fraud were vigorously followed during the past fiscal year. In all, the department handled 44 investigations, most of which have been completed and are now in the hands of the prosecuting authorities.

From time to time the department has been called upon to report on its accomplishments toward checking the careers of the commercial cheat and but few know that since June 1925—

It has handled 4,158 investigations
It has accounted for 1,673 convictions



and found

WORTHY!

Since 1890

Fidelity and Deposit
COMPANY OF MARYLAND
BALTIMORE

FIDELITY AND SURETY BONDS
Burglary, Robbery and Forgery Insurance



At the Western Division Dinner—(Top) President Redmond, National Comptroller Ruth E. Hoctor, President-Elect Ray Wilson, Executive Manager Henry Heimann, Loretta Smith (Mr. Heimann's secretary), E. J. Balistier, New York, Industry Group Service. (Center) Secretary Cleo King and part of his Seattle delegation. (Bottom) Secretary Otis Walker of San Francisco and part of his delegation

It has successfully used preventive measures
It has recovered two million dollars for creditors
It has served countless thousands of creditors
It has materially reduced commercial fraud
It has broken up racketeering activities
It has created fear on the part of the law violator
It has the confidence of prosecuting agencies
It has never compromised with crime.

During the past few months in collaboration with the Public Relations Department, a series of broadcasts covering the work of the Fraud Prevention Department and many of its interesting cases were made by prominent credit executives. These broadcasts attracted considerable attention, particularly those made by representatives of concerns in the textile field under the leadership of Mr. Wm. G. Betsch of William Iselin & Co., Inc., New York City, the Chairman of the Textile Fraud Prevention Committee.

It is a known fact that during the year 1940 considerably more interest was shown by credit executives in the work of the Fraud Prevention Department than during the preceding year and this has enabled the department to increase the territory served and has renewed the hope that the time is not far distant when a nation wide coverage will again be possible.

No special reference is made in this report to Divisional activities. These activities have been carried on in the usual way and with the usual vigor. In each case the Divisional Managers have worked in cooperation with department heads in fostering the growth and prestige of the organization.

In closing this report I want to thank all of those who have cooperated so actively during the past year with me and with the National office. I extend my special thanks to the National President and Vice-Presidents, the National Board of Directors, the members of our National Committees and to the local officers and managers. Without close cooperation of all of us the things which we are able to accomplish will be materially reduced. With that close cooperation I am convinced we can go forward as an even more powerful and effective organization in the business life of the nation.

What She Didn't Know

A woman put her head over the garden wall and addressed her neighbor.

"A family has moved into the empty house across the way, Mrs. Jones."

"Yes, I know."

"Did you notice their furniture?"

"Not particularly."

"I wouldn't give \$25 for the lot. Carpets! I wouldn't put them in my

kitchen. And the children! I won't allow mine to associate with them. The mother looks as if she had never known a day's happiness in her life. The father drinks, I expect. Too bad that such people should come into this neighborhood. I wonder who they are?"

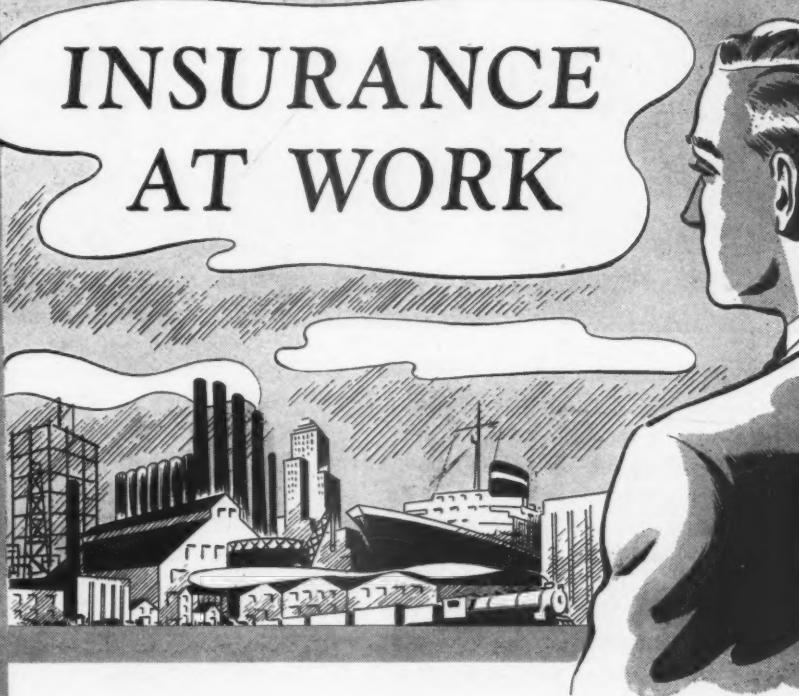
"I know them."

"Do you? Who are they?"

"The woman is my sister."

—Kablegram.

INSURANCE AT WORK



All through the land today wheels are turning to meet an emergency. And everywhere Fireman's Fund Insurance is at work—ready to step into the breach with funds to *keep* them turning when loss occurs. ★ Day and night, 365 days a year, your Fireman's Fund policy keeps on working, giving you *your premium's worth in mental comfort* as well as sound protection against loss. ★ Backed by assets of over \$44,000,000 and policyholders' surplus of over \$23,000,000, a Fireman's Fund policy gives you *the right to feel secure*. Available through Home-Town agents and brokers everywhere.

STRENGTH • PERMANENCE • STABILITY

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★ OCCIDENTAL Indemnity Company

New York • Chicago • Los Angeles • Boston • Atlanta

DEPENDABLE INSURANCE SINCE 1863

Let's work together for America

Standard protection

Capital Stock Company Insurance

New Orleans Credit Congress Scores as a Big Success

(Cont'd from p. 20) President. The boat started at 8:30 in the morning with a return by 1:30 so that the delegates could pack their things and board their trains for home.

Annual Report by Mr. Heimann, as Executive Manager of the Association, which was given on Tuesday morning, is also printed in full in this issue.

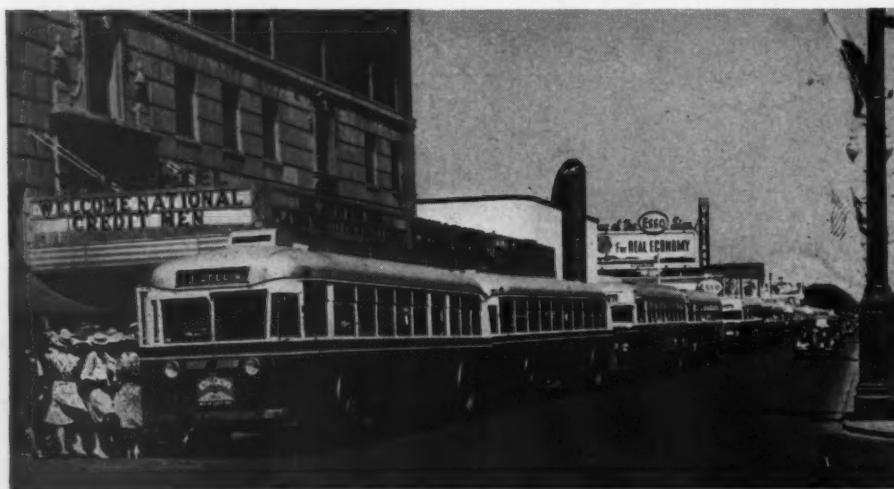


Busy Scene on Registration Day

New Orleans has stressed its many attractions to tourists, and the delegates attending the 46th Credit Congress were quite conscious of why the host city figures its tourist business as its No. 1 industry.

REMARKS heard in many quarters during the days of the Convention indicated that the program at New Orleans was considered one of

ON MONDAY afternoon Clayton Rand, Editor of the Dixie Press, of Gulfport, Miss., delighted the delegates with an interesting and inspirational address entitled "A Squint at the Future." Editor Rand, with his rough-and-ready "Billy Sunday" type of speaking discoursed on what we might expect in future years from the developments of the present-day



Visiting Women go on a Sight Seeing Tour

the best in recent years. The session opened on Monday morning after the usual preliminaries with a keynote address by Executive Manager Henry H. Heimann. This address, divided into two parts, is presented on page six and page 21 of this issue. The

situation.

Raymond Clapper, well-known Washington, D. C. correspondent, delighted the audience with his address entitled "Washington from the Inside!" Remarks by visiting delegates at the close of the afternoon

session indicated that credit men were more optimistic than the professional writers and speakers in their view of the future.

On Tuesday morning after President Redmond had presented his Annual Report, the Convention listened to an interesting talk by Cornelius Vanderbilt Whitney, Chairman of the Board, Pan American Airways System, on "Latin-American Tangibles and Intangibles." Mr. Whitney also was a guest speaker at the Annual Foreign Trade Luncheon on Tuesday noon. The text of Mr. Whitney's address will be presented in the July issue of "Credit and Financial Management."

On Tuesday afternoon, Past President Charles A. Wells presented the Annual Report on Membership together with the awards to the winners in the several classes.



President Redmond receives gavel from Chairman Pillsbury

The main addresses of the Tuesday afternoon session were made by Dr. J. Frederic Dewhurst, Economist for the Twentieth Century Fund, whose subject was "Does Distribution Cost Too Much?" After a day's adjournment for the Industry Meetings, the Convention program resumed on Thursday morning with addresses by DeLoss Walker, Associate Editor of "Liberty" Magazine, on "The Place of Labor in National Defense" and another address by Samuel B. Pettingill, former Indiana Congressman, whose subject was "Citizen or Resident." The main address of the Thursday afternoon session was made by Dr. Harley L. Lutz, Professor of Public Finance, Princeton University,

whose subject was "Paying for National Defense." The text of Dr. Lutz' address also will appear in the magazine in July. Other features of the closing session on Thursday afternoon were reports of Bruce R. Tritton, Chairman of the National Taxation Committee, and by R. L. Simp-



Note the flag with the N. A. C. M. seal. Canal street was decorated thus for several blocks

son, Chairman of the National Legislative Committee, on the results obtained by those committees during the past year.

As usual, the Convention closed with the report of the Nominations Committee under the chairmanship of Past National President Charles A. Wells of St. Joseph. Mr. Wells' committee met first on Sunday afternoon and held sessions on Monday afternoon and Tuesday afternoon and completed its report so that the nominations for Directors were posted one minute after midnight on Tuesday night. The list of the new Directors and the new National officers are

presented elsewhere in this issue. The Convention closed with the usual custom of singing "Auld Lang Syne."

Lee Schroeder starts firm

Chicago — Lee Schroeder, past NACM Director, recently announced the formal opening of the Lee Schroeder Paint Co. of 207 W. Washington St., Chicago. Mr. Schroeder has had wide experience in this field of business and associated with him in his company are Geo. J. Zimmerer, Peter J. Hansen, Jack Eisele, and Thor Sivertsen.

Satisfactory Interview

Editor: "You offered yourself last night to my daughter, you say."

Scribbler: "Yes, sir."

"Did you compose yourself for that occasion?"

"I did."

"My daughter found you available, did she?"

"She accepted me, yes sir."

"Well, a professional humorist is a funny man for my daughter to marry, and you have my blessing. Check will follow soon."

AT LAST! A PRACTICAL METHOD BY MEANS OF WHICH A CREDIT EXECUTIVE CAN DETERMINE FOR HIMSELF

whether or not each of the "essential" records in his custody is provided with some-where-near adequate protection against fire.

A simple survey or inspection form makes this possible. It is the "answer" given in the second of the series of leaflets entitled "The Burning Question."

The first of the series tells you how to determine which of your records are "essential" ones — from the standpoint of their "after-a-fire" value to your business.

The second of the series tells you how to determine what degree of protection you now have for each of your "essential" records, and also tells you how to determine the degree of protection that you should have. A comparison of these two values tells you your story at a glance.

Other leaflets in the series will answer other questions that arise in connection with your record protection problem.

Copies of the leaflets in this series are free. You incur no obligation if you ask for a particular leaflet, or ask to be put on the mailing list for the complete series as issued.

Or, if you prefer, a record protection appraiser will be supplied upon request by any member of



SAFE MANUFACTURERS NATIONAL ASSOCIATION

Diebold Safe & Lock Co., Canton, Ohio

Herring-Hall-Marvin Safe Co., Hamilton, Ohio

Meilink Steel Safe Co., Toledo, Ohio

Masler Safe Co., Hamilton, Ohio

Safe-Cabinet Division, Remington Rand, Inc., Buffalo, N. Y.

Shaw-Walker Co., Muskegon, Mich.

Victor Safe & Equipment Co., Inc., N. Tonawanda, N. Y.

York Safe & Lock Co., York, Pa.

Photo-Finish Marks Race for Membership Awards

SIt has been my privilege during the past year, as Chairman of the National Membership Executive Committee, to direct the sales and promotional activities of the Association. I have been very effectively and ably assisted by the three divisional vice presidents, Mr. Paul Miller, Mr. Bruce Tritton, and Mr. Ray Wilson, who have also served as vice-chairmen of the Membership Committee for their three respective divisions. We also have been ably assisted by the members of the committee, thirty-eight in number, located in as many different cities throughout the country.

It is always very gratifying to report progress, even though that progress has been moderate, and not up to our expectations. It is my pleasure to report that for the sixth consecutive year, our membership has shown a gain, and while our gain for the past fiscal year is only nominal, 226 members, it is nevertheless a 55% improvement over the gain of the preceding year.

You will be interested to know that a total of 2,227 new members were brought into the Association during the fiscal year, and yet we show only a net gain of but 226. Therefore, our sales and promotional problem is not so much one of obtaining new members, but rather our problem is one of membership contact work. Our aim should be to develop and hold the interest of the members in order to decrease the resignations, by which a better net result and progress might be reported.

A systematic plan for the development of member interest, appreciation, and activity will help to accomplish the desired results, and naturally reduce membership turnover. We, therefore, want to again strongly recommend and urge that the local Associations give particular attention to the development of interest by the individual member in the activities of the Association.

If our salesmanship and our membership contact work was as depend-

By CHARLES A. WELLS

Past National President and Committee Chairman



Class C—
Philadelphia, Penna. 137.19%
Class D—
El Paso, Texas 131.25%
Class E—
Bluefield, West Virginia... 150%
Our appreciation and compliments to the second and third place Associations in each of the five membership classes or groups:
Class A—2nd place—
Louisville, Kentucky 106.42%
Class A—3rd place—
Los Angeles, California .. 102.55%
Class B—2nd place—
Indianapolis, Indiana 108.29%
Class B—3rd place—
Cincinnati, Ohio 106.33%
Class C—2nd place—
Kansas City, Missouri... 114.11%
Class C—3rd place—
Oakland, California 110.7 %
Class D—2nd place—
Manila, P. I. 122.22%
Class D—3rd place—
Wheeling, West Virginia. 116.96%
Class E—2nd place—
Amarillo, Texas 128.12%
Class E—3rd place—

Huntington, W. Virginia. 118.51%
These figures speak for themselves. I especially call your attention to the fact that first place in Class A was awarded by the small fraction of less than one-third of one per cent. Also that the awards in the other classes were indeed close.

I would like also to give particular mention, honorable mention, if you please, to those Associations that have shown better than a 4% increase in membership throughout the fiscal year just concluded.

Albuquerque	New Haven
Binghamton	Norfolk
Bridgeport	Rochester
Cedar Rapids	San Diego
Charleston	Toledo
Chattanooga	Utica
Dayton	Waterbury
Duluth	Worcester
Jackson	

Our compliments and congratulations to the five leaders and winners of the five membership classes or groups:
Class A—
New York, New York... 106.71%
Class B—
Seattle, Washington 110.02%

In conclusion, I would like to again emphasize my sincere appreciation of

the generous co-operation rendered by the three Vice-Presidents, and the members of the National Membership Committee, by the Presidents and Secretaries and the Chairmen of the Membership Committees of all of the local Associations, and all others who have given so willingly of their time and energy in the promotion of our membership campaign.

Time will not permit individual mention of all of those who have so splendidly contributed to the building up of our organization through membership increase. The many letters that I have received throughout the year have been most heartening and encouraging, and I want to express my personal appreciation to all who have had a part in this important task, but particularly do I want to mention and recognize the fine work, the cooperation and the helpfulness, which we have received from Ed Moran, Sales and Promotional Manager, for he has contributed very greatly to the success of our year's endeavor, and we hereby publicly express to him our sincere thanks and appreciation.

Finally, I beseech your continued assistance and co-operation in the further expansion of the Association during the coming year. Give to the Chairman of your National Membership Committee next year the same co-operation that you have given to me during the past year, and we believe that we can expect even greater results in the years to come, for our Association is becoming more and more recognized for its real value as an organization for the benefit of the business of the country.

N. Y. C-women elect

New York—At the May dinner meeting the following officers were chosen to head the New York Credit Women's Group during the coming year: *Pres.*, Catherine Cohen, New York Girl Coat Co.; *Vice Pres.*, Eva Marienhoff, Thalheim Wearwell Shoe Co.; *Sec.*, Florence E. Britt, Minwax Co., Inc.; *Treas.*, Frances Wasservogel Reville, Keystone Photo Engraving Co.

Three past Presidents were also elected to serve, with the officers, on the Executive Board for one year: Lillian M. Guth, Emerson-New York, Inc.; Marion E. King, Hudnut Sales Co., Inc.; and Anne Spitzer Werner, The International Hdkg. Mfg. Co.

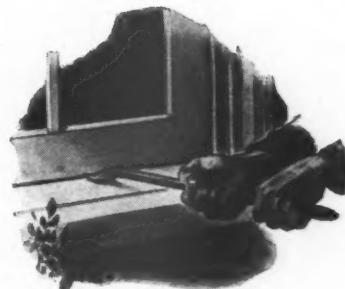
Peoria picks new officers

Peoria—At the annual meeting of the Peoria ACM on Apr. 22 the following officers were elected: *Pres.*, O. L. Ulrich, J. D. Roszell Co.; *Vice Pres.*, Joseph Murphy, McElwee Pkg. Co.; *Treas.*, Harold L. Harsch, First National Bank; *Sec.*, Ernest L. LaBarr, Peoria ACM; *Asst. Sec.*, Edith M. Dunn, Peoria ACM.

Directors elected were: Mrs. Cora Marshall, Universal Elec. Co.; J. A. McDonough, Cummings & Emerson; B. E. Darrell, Williams, Inc.; Herman G. Eckhoff, Keystone Steel & Wire Co.; Leo Barbier, The Oakford Co.; Nora Rupert, Lynch Bros. Oil Co., Inc.; Edw. H. Abbey, McKesson & Robbins.

Following the business meeting, Lester F. Carson, State Attorney, spoke on the Problems of a State Attorney's office.

While you're at the movies!



Thieves pick their own time and place. No home, however tightly locked, is immune to burglary of silverware, jewels, furs, stamp collections, household goods, and other valuables.

But no thief, however crafty, can steal the sure protection of Residence Burglary, Robbery and Theft Insurance with Standard of Detroit!

Here, at low cost, is freedom-of-mind away from home — on vacation, week-ends, shopping. Standard's policies pay promptly in event of loss from theft by burglars, tradesmen or servants.

Your efficient Standard agent or broker will show you how this Company guards home and business against loss due to burglary and robbery; forgery; embezzlement; glass breakage; injuries to self, employees and public; and similar hazards.

STANDARD ACCIDENT INSURANCE COMPANY

Standard Service Satisfies... Since 1884

Importance of the Financial Factor in Credit Analysis

(Cont. from P. 11) based upon proper budgeting principles even though great accuracy may not be required—round amounts and fair approximations usually sufficing. Such a budgetary estimate is very valuable to the bank credit man not only in arriving at his decision about one loan but also from a longer term viewpoint. As the customer's actual figures become available the banker can compare them with the estimate and can question the borrower regarding important differences. Thus the plan helps the banker reach a decision as to the business ability of his borrower. The business man who can make a comprehensive and reasonably accurate operating plan for the future is ordinarily an able and competent executive.

The effect of such an informal budget is even more far-reaching. The borrower who may be anxious to obtain a loan will present to his banker a forecast which is just as optimistic as the facts can possibly justify. This gives him a definite goal to shoot at, and if he has hitherto been opposed to the budget idea, he soon comes to an honest appreciation of financial planning. In other words, the banker's demand for a forecast has a definite educational influence among many borrowers.⁴

Miscellaneous Financial Schedules

IN addition to those types of financial statements already discussed, there are several other supplementary summaries or exhibits which contribute a great deal to the competent appraisal of the financial factor in credit analysis.

For a financial statement or an audit report to be of the maximum value to the analyst, all of the larger and more important group totals in the balance sheet, as well as in the profit and loss statement, should be broken down into reasonable detail either on the face of the statement itself or in supplementary supporting schedules. For instance, the cash

total should be stated by banks and types of funds and deposits—unwarranted inclusions may be made, unreasonably heavy "on hand" funds may constitute a hazard. Accounts receivable should be aged as to charge dates as an important reflection on the condition of receivables. Inventories should be scheduled by stages (raw materials, goods in process, and finished goods), departments, and even by products, if practicable, in order to ascertain their balance as fully as possible and to disclose speculative tendencies. Investments should be itemized in complete detail not only to enable an appraisal of value but to reveal potentially significant subsidiary and affiliate connections. Fixed asset or property accounts should be broken down by types of assets, showing cost or other book value and related accumulations of depreciation as an aid to estimating the value and condition of fixed capital investments and as a means of disclosing unproductive properties. And so on through all of the major balance sheet asset and liability items the support of detailed supplementary schedules is desirable and helpful.

In the profit and loss statement the same completeness of detail is essential to a comprehensive analysis. Unless provided for in the statement proper, supporting schedules should contain production and sales statistics in unit quantities together with dollar costs and sales figures by divisions, departments, or products. Production costs should be itemized by raw materials, direct labor, and manufacturing expenses in detail, showing depreciation, rent, repairs, taxes, and other important overhead factors. Selling and administrative expenses should be detailed and financial income and expense described and listed by each component total. The importance of obtaining operating breakdowns of this kind has already been evidenced in our discussion of the use and significance of certain specific operating accounts under the heading of "The Profit and Loss Statement."

A schedule of considerable interest and assistance to the analyst that is all too infrequently fur-

nished by public accountants is one that summarizes the month-end balances of the following pertinent accounts throughout the fiscal year.

1. Cash
2. Accounts (and Notes) Receivable
3. Inventories
4. Notes Payable
5. Accounts Payable
6. Cash and Charge Sales (by months)

From these figures, the peak debt position of the business can be approximated and the protection afforded current creditors appraised at the point of maximum strain. As we shall stress later, we feel that this is one of the fundamental considerations in the extension of commercial credit.

Year-end figures alone may be window-dressed to display abnormally favorable proportions. Reference to the monthly figures mentioned will readily disclose abnormalities in the account totals and provide an informative check on window-dressing activities.

The inclusion of monthly sales figures defines the limits of seasonal fluctuations in business activity, facilitates the analysis of receivables and inventories, and makes for a more intelligent understanding of the operating and financing problems of the business as a whole.

Statement of Application of Funds

A STATEMENT of application of funds is frequently supplied as a helpful addition to an audit report. It is interesting and pertinent to see a summarization of the sources of funds for a given period, from earnings (before depreciation and amortization), fixed asset disposals, stock sales, and so on, and of how these funds were applied to fixed asset additions, stock or deferred debt retirement, to increased working capital or perhaps other purposes. However, the analyst may prefer to work up his own schedule of financial changes, from beginning and ending balance sheets and operating data, in the manner and detail he deems most helpful and in a way that will feature those changes he deems most significant.

Occasionally, an accountant will include in his report a supplementary computation in which he purports to account for a change in gross profit

⁴Gilman, Stephen, "Analyzing Financial Statements" (The Ronald Press Company, New York, 1934), pp. 414-15.

between two periods by showing the change in the quantity of dollar sales and the change in the rate of gross profit. Such a statement is practically meaningless, however, unless it is based on known differences in unit selling prices or unit quantities. It is manifestly impossible, for instance, to determine how much of an increase in dollar gross profit is attributable to increased sales and how much to an improved spread of selling price over cost unless we know the extent to which unit prices have varied between two periods.

Schedule of Insurance Coverage

FINALLY, there is a schedule of extreme importance that should be considered an integral part of every financial statement group. And that is a list of insurance coverage. It is of no avail to ascertain the liquidity and soundness of the inventory asset, to determine the efficiency and profit-making capacities of the plant, and to rely on a net financial responsibility vested largely in these assets, if we remain open to the hazard of having them rendered useless and valueless by an overnight fire or by other destructive elements beyond managerial control. Every reasonable and insurable hazard should be provided against where practicable and to the extent that the cost of protection is not prohibitive in relation to the risks involved or in relation to the benefits to be derived.

The balance sheet, or a statement of the asset and debt position of a business at a static moment of time, is not complete without a profit and loss statement, showing the dynamic inflow and outflow of funds from the preceding balance sheet date and reflecting directly on the soundness of balance sheet proportions. A profit and loss statement, in turn, is not complete without a statement of surplus or capital account or accounts in which the net excess of inflow or outflow is tied into the balance sheet changes. Perhaps we might also add that a balance sheet is not complete as a dependable base for the extension of credit unless it is accompanied by a statement of insurance protection or some supplementary information concerning the extent to which the continuity of the value of physical assets is assured by insurance protection against the destructive influence of elemental forces. Thus these figure

evidences of financial strength are mutually dependent and the relative value of each is closely interlocked in the whole.

The Indispensability of the Balance Sheet

HOWEVER, there is only one statement of the group that would seem to be absolutely indispensable, under all circumstances, and that is a statement of property values and related debt incidence. It is conceivable that balance sheet proportions could be so strong that the necessity for operating figures and surplus or capital account reconciliations could properly be waived, and that, at the same time, balance sheet assets could be in such a form as to obviate entirely the need for insurance coverage. On the other hand, under no circumstances would it be other than foolhardy to base a credit decision on a profit and loss statement, a surplus or capital account reconciliation, or on any other single statement of financial data that did not reveal the property value of a business and, perhaps more important, the extent of its outstanding indebtedness.

There are said to be analysts who feel that they do not need the balance sheet in arriving at a credit decision because they can get all the information they need from the operating figures.⁵ Such an assertion is absurdly untenable if viewed in the light of exceptional circumstances. In the first place, a business may show consistent profits over a period and yet its financial strength may be steadily weakened through excessive dividends or withdrawals. Secondly, just because an enterprise has been profitable in the past is no positive guarantee that it will earn enough in the future to retire an advance or that it has retained enough of its past earnings to place its affairs in an easy condition. Thirdly, it is difficult for the analyst to judge accurately whether the profits shown are satisfactory or unsatisfactory when he has no way of knowing how much capital is at use in the business. Lastly, it is conceivable that the debts of an enterprise could be so toweringly heavy that even a profitable era of fairly long duration would still leave it in an unbalanced and hazardous state.

⁵Wall, Alexander, "Analyzing Financial Statements" (American Institute of Banking, New York, 1938), Part One, p. 77.

There may be a little more logic on the side of those who claim to rely chiefly if not entirely on the balance sheet. Balance sheet changes reflect the net effect of operating activities on the business and indicate the direction in which it is moving. A study of balance sheet trends and proportions enables an appraisal of financial strength and facilitates an evaluation of other credit factors. Even here though, we cannot be sure that we are treading on solid ground. Net worth may be boosted by unrealized asset appreciation and the progress shown may be ethereal. Receivables and in-



Fidelity & Surety Bonds

Blanket Bonds

Burglary & Forgery

Insurance



NATIONAL SURETY CORPORATION

VINCENT CULLEN
President

ventories may be rising assuringly but without the tests and checks afforded by operating details how are we to gauge whether the gains are sound and authentic?

Conclusion

THERE are at least three statements of financial data, namely, the balance sheet, the profit and loss statement, and the reconciliation of surplus or capital accounts, which are highly interdependent and which together are ordinarily essential to a sound appraisal of the financial factor. It would seem apt to regard each of the three as a leg to a three-legged stool upon which as a general thing it is unsafe to sit with any one leg missing. However, in exceptional circumstances, the balance sheet may be sufficiently strong to support a decision alone, thus possessing an essen-

tiality that is a consistent characteristic of no other form of financial exhibit. For this reason, and because it is a fertile source of general credit information, we are inclined to agree with the textbook statement that the balance sheet "constitutes the most valuable single index to the financial status of a borrower."⁶

Since we concluded in Chapter I that the financial factor is the most important single influence in forming a credit decision and since we now advance that the balance sheet is the most important single index to the evaluation of the financial factor, we are therefore brought to a realization of the overpowering importance of the balance sheet alone in appraising a business credit.

⁶"Credit Management" (American Institute of Banking, New York, 1931), p. 175.

16 Credit Women's Clubs Sponsor Scholarship this year

By ALLEEN HARRISON

Tafel Electric Co., Louisville, Chairman, National Credit Women's Executive Committee

SThe National Credit Women's Executive Committee the past year, continued the "Three Point" program — sponsoring Scholarships, obtaining Association Memberships and organizing new Clubs, which was so successfully initiated by my predecessor, Jane Sweaf.

To those three objectives we added the recommendation of uniform elec-

tion dates for all Credit Women's Clubs.

I shall report briefly on those four items.

Sixteen Clubs sponsored Scholarships the past year. The Portland, Oregon Club sponsored two Scholarships which gives us a total of seventeen and four more than a year ago.

Seventeen Clubs participated in the

Association Membership Campaign and obtained sixty new members. This was a decided increase in that activity.

However, we were not so successful in organizing new Clubs this year. Four new Clubs were added to our roster—St. Louis, Missouri, Atlanta, Georgia, Cincinnati, Ohio and New Orleans, Louisiana. This is just 50% as many as were organized the previous year.

When we consider that it required the voting of fifteen hundred women to amend Constitutions throughout the country and vote for uniform election dates, and when I tell you that thirty-one of our thirty-two Clubs now hold their elections approximately at the same time, I believe you will agree that this is our greatest achievement. I say that for the reason that it shows whole-hearted co-operation and a desire on the part of women in the credit profession to work hand in hand with each other, regardless of the many miles which separate them. That spirit is our greatest asset and we should strive to continue it.

We should be very proud and grateful that in the United States there is a National organization which has enabled women in the credit profession to band together to improve their own positions and to encourage other women to take advantage of the educational courses which are available on credits and finance so that we may become better credit executives and help others coming into our pro-



At Credit Women's Banquet—(from right to left) Miss Alleen Harrison, Chairman Natl. Executive Committee, Miss Inez Johnson, President New Orleans Credit Women's Club, Madame George De Gripenberg, speaker, and the Rev. Elois B. Echlin

tion to be well equipped to handle their jobs in order that women will be considered equally, if not more, reliable, efficient and as well informed as other members of the credit fraternity.

Through the continued friendly co-operation of our Clubs, not as individual groups but with the knowledge that we are national in scope, this can be accomplished.

We wish to thank the National Association of Credit Men for making this possible and for the publicity which it gives to our Credit Women's Clubs through the columns of **CREDIT AND FINANCIAL MANAGEMENT**.

As in all important endeavors, accomplishment is the result of Edison's formula, "90% hard work." No one has labored longer, nor more faithfully than our genial National Secretary, Mary Jane Heady. Her willing-

ness to work long hours, and to generate enthusiasm, has served as an inspiration to those who have been associated with her during the past year. It is only fitting and proper that she be given this recognition, and with it, my heartfelt thanks.

In our credit work, we used the word, "co-operation," and sometimes we misuse it. Therefore, it is with an honest conscience that I can say that we have had splendid co-operation from my Committee, the Presidents and members of all the Credit Women's Clubs, friends of Credit Women's Clubs, the National Staff, and the Secretary-Managers of the various local Credit Associations. To all of them, I express my sincere appreciation for their help and encouragement, given to me as Chairman of the National Credit Women's Executive Committee for the year 1940-41.

Salaries for Referees Proposed in Bankruptcy Law Amendment

STHE changes in the Federal Bankruptcy law as recommended by the Attorney General's Committee on Bankruptcy Administration (**CREDIT AND FINANCIAL MANAGEMENT**, March, 1941), have taken concrete form by the introduction of H. R. 4394. At this writing, the Bill has been referred to the Judiciary Committee of the House and hearings will be held by the sub-committee on Bankruptcy, Congressman Charles F. McLaughlin, Chairman.

The Bill follows substantially the report of the Attorney General's Committee and the recommendations of the National Bankruptcy Conference, of which the National Association of Credit Men is a member.

Briefly, the provisions of H. R. 4394 are:

1. The Director of the Administrative Office of the United States Courts shall study local and country wide conditions in respect to salaries, areas and populations to be served. The Conference of Circuit Judges shall determine, after this investigation is made, the number of referees, their territory, salaries and schedule of fees to be charged in establishing the Referees' Salary Fund and the Referees' Expense Fund.

2. The territory of a Referee may be set up so as to extend over more

than one judicial district, but shall be in the same circuit.

3. The Director shall report the decisions of the Conference in respect to number of Referees to be appointed, their territories and salaries, to the appointing judges of the several courts of bankruptcy, who shall make the appointments.

4. The term of each appointment shall be for six years, except in the case of initial appointments the referees shall be divided into three classes, two, four and six years.

5. Not later than ninety days before the expiration of a referee's term the Director shall report in writing to the appointing judge, recommending reappointment, or recommending against reappointment with reasons. Where the appointing judge does not concur with the Director's recommendations, final decision rests with the District Council. The referee has the opportunity to be heard.

6. Referees may be removed by the appointing judge at any time for incompetency, misconduct, inefficiency or neglect of duty. In such cases the referee is fully protected by a copy of the report recommending his removal and the right to be heard as well as the right to review by the Council.

7. Wherever possible the appointed referee shall be on a full time basis.

8. Full time referees may not practice law or hold any other office of profit.

9. Referees' salaries shall be from \$3,000. to \$10,000. per annum. Part time referees, if needed, shall not exceed \$2,000. per annum. The Conference may increase or decrease any salaries within the prescribed limits upon recommendation of the Director and of the Council. Salaries of full time referees shall not be reduced below the amounts at which they were originally appointed.

10. A Referees' Salary Fund and a Referees' Expense Fund shall be set up in the Treasury of the United States. With each petition filed, there shall be deposited with the Clerk of the Court a fee of \$15.00 for each one of these funds. Additional fees shall be separately charged in accordance with a schedule fixed by the Director, against each asset estate, and against each estate under arrangement, Chapter XI.

11. To start these funds, an allocation shall be made, in all cases pending when the Act becomes operative, of the filing fees, indemnity funds, and other charges then on hand.

12. Referees may resign after reaching the age of 70 years, and after having held office for at least ten years. He may retire or be retired regardless of time or age because of permanent mental or physical disability. In any such event, he is entitled to receive annually for life, one half of his salary payable to him at the time of his resignation or retirement. Such pensions shall not be paid out of the Referees' Salary Fund, but the general funds of the Treasury of the United States.

13. Referees in office when this Act becomes operative, and not then reappointed, shall, if qualified on the basis of age and time of service as specified, receive an annual pension of one half the average income received by him as referee during the preceding five years with a maximum of \$4,000. per annum.

14. Part time referees shall not be entitled to the benefits of the provisions with respect to reappointment and may be removed at any time by the appointing judge when their services are not needed or for any cause.

Substantially, H. R. 4394 is endorsed by the National Bankruptcy Conference and the Legislative Committee of the National Association of Credit Men.

Failure Trends Found in Financial Statements

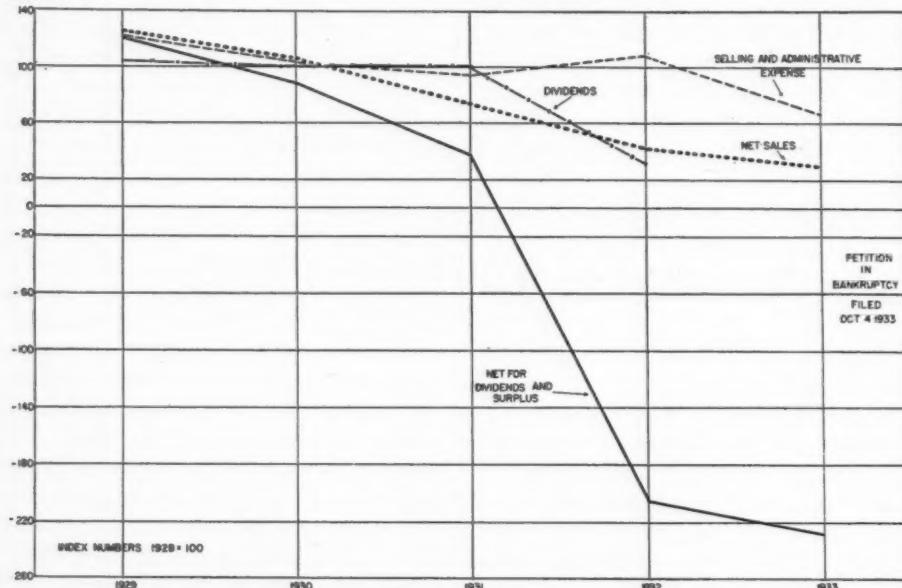
(Cont. from P. 15) of future earning power.** This defective forecasting is strikingly illustrated in the case of estimates of future earning power of the Waldorf-Astoria Hotel Corporation prepared by Horwath & Horwath, accountants specializing in the field of hotel accounting. Their estimates were based on an occupancy rate of 85%; although the prevailing rate during this peak period of prosperity was only 67%. Again the capitalization of the company may be

bankers impose upon new enterprises. In such cases the basis of financial failure is laid in the promotion stage. It places upon management a heavy debt burden carrying with it the responsibility of meeting burdensome fixed charges.

Financial Policies

IN CONTRAST to causes of failure due to defective promotions or re-organizations for which the present management cannot always be held responsible, there are many failures

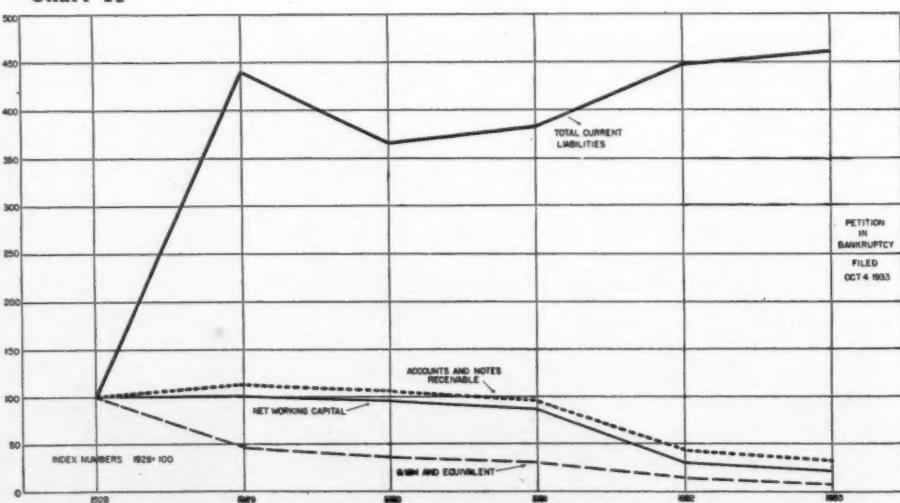
Chart I



determined largely by mere expediency. Faulty capital structure may result from investment market conditions in which it becomes impossible to market securities which should be used at the time in order to effect a sound financial structure. Thus in the case of the General Refractories Corporation, it was necessary to finance in 1931 with short term notes because of the refusal of the public to buy long term bonds much less stock during this period of sharply declining markets. Unfortunately for General Refractories, this issue matured about the time of the nation-wide bank holiday in 1933.

Insufficient equity capital and over-trading on the equity resulting from the excessive use of borrowed capital is too frequently a serious handicap which originating promoters and

Chart II



caused by poor financial policy. Causes of failure due to unsound financial policies are self-evident and should be readily recognized by any intelligent management. Causes such as excessive salaries, bonuses, dividends and withdrawals of capital, together

with excessive interest expense and inadequate depreciation, depletion and maintenance are all readily recognized and can be controlled.

Sometimes management, too close to the scene of action loses its perspective when planning and financing its expansion programs. Closely identified with the general problem of expansion are such causes of failure as over-expansion, over-capitalization, excessive investments in plant, inventories, etc., together with poor financial planning. All of these financial policies leading to failure are directly determined by management and should the policies prove unsound, they alone are responsible.

Illustrative of the unwise management policy of paying dividends in excess of true earnings is that of Universal Pipe and Radiator Company. In the bankruptcy proceedings of this corporation it was revealed by engineering experts that the company for a number of years prior to its difficulties failed to provide for adequate depreciation. It was indicated that depreciation had been charged only on minor items of equipment in spite of the fact that the consolidated balance sheet revealed over ten million dollars of tangible fixed assets. Profits before depreciation and dividends for six years had been reported as aggregating over \$3,500,000, but when corrected for adequate depreciation, shrunk to about \$1,300,000 before dividends. Dividends paid for this period totaled over \$2,700,000, re-

sulting in a net deficit in excess of \$1,400,000.

Comparative Financial Statements

FAILURE does not strike without warning. Its tendencies are ap-

** "Corporate Reorganization Procedure" by Harry Lee Kuntzman, Assistant Professor of Accounting, College of the City of New York, 1938.

Table No. 2—
American Type Founders Company (N. J.)

Table No. 3—
American Type Founders Company (N. J.)

Trend Analysis—1928 = 100%						
	Comparative Consolidated Balance Sheets—Fiscal Years Ended August 31, 1928-1933					
	1928	1929	1930	1931	1932	1933
CURRENT ASSETS:						
Cash and Equivalent.....	\$2,657,500	\$1,306,283	\$1,044,324	\$855,347	\$416,200	\$234,175
Accounts Receivable.....	2,266,553	2,266,275	1,658,015	1,482,149	100,000	49,72
Notes Receivable.....	5,830,722	6,973,097	6,779,871	6,150,080	1,120,880	33,60
Inventories.....	6,371,500	8,537,046	8,351,253	5,307,222	3,752,628	100,00
Total Current Assets.....	\$17,085,043	\$19,183,084	\$18,241,632	\$17,014,904	\$9,204,724	\$6,570,866
LESS CURRENT LIABILITIES:						
Notes Payable.....	None	\$1,970,000	\$1,725,000	\$1,570,000	\$2,990,412	\$2,401,423
Accounts Payable.....	413,943	557,469	418,336	433,930	182,245	155,700
Accruals.....	100,000	100,000	100,000	50,000	177,991	245,300
Total Current Liabilities.....	\$613,943	\$2,727,469	\$2,243,336	\$2,353,930	\$2,750,648	\$2,831,852
NET WORKING CAPITAL.....	\$16,441,100	\$16,455,615	\$15,998,206	\$14,660,955	\$6,544,076	\$3,739,014
ADD. FIXED ASSETS:						
Net Land, Buildings and Equipment.....	\$6,400,942	\$6,937,551	\$6,844,570	\$6,983,217	\$8,418,448	\$5,820,604
Investments and Advances.....	605,740	416,183	416,183	412,924	615,284	68,422
*Other Assets.....	367,440	578,052	489,282	557,020	559,407	522,151
Total Fixed Assets.....	\$7,374,187	\$7,982,356	\$7,750,005	\$7,982,170	\$7,593,139	\$7,011,77
TOTAL NET ASSETS INCL. NET WORKING CAPITAL.....	\$23,815,237	\$24,387,971	\$23,748,301	\$14,137,215	\$10,750,791	\$7,184,391
A available to Funded Debt.....	5,563,500	6,084,000	5,560,800	4,071,100	3,566,400	100,00
Less: Funded Debt.....						
NET WORTH.....	\$18,251,437	\$18,383,071	\$18,157,501	\$17,470,635	\$10,066,115	\$7,184,391
Deferred Assets, Sinking Fund and Accumulated Premium.....						

**Subsequent percentages based on 1929 as 100, inasmuch as Detailed Assets, Banty notes and accounts receivable.

*Subsequent percentages based on 1929 as 100 inasmuch as there were no notes payable in 1925.

parent in the financial statements of corporations for some time before they assume sufficiently large proportions to force receivership or bankruptcy. Failure tendencies may appear in either one or both of the financial statements. These tendencies are revealed through (1) comparative income accounts, and (2) balance sheets.

Income account failure tendencies are characterized by the following conditions:

1. Declining sales volume
2. Excessive returns, allowances and other deductions from gross sales
3. Excessive cost of goods sold
4. Excessive selling and administrative expenses
5. Excessive interest and fixed charges
6. Excessive taxes
7. Excessive withdrawals and dividend payments

These all result in:

- a. Insufficient profits
- b. Net loss.

Insufficient profits fail to provide a reasonable return on the invested capital and reasonable dividends to equity owners. They do not leave a margin of profit for growth and the inevitable losses of lean years. Such conditions may exist for some time before an enterprise becomes financially or legally insolvent. It is during this period that bankers, intelligent corporate managements, credit executives and astute investors take steps toward preventing serious losses, financial failure and ultimately, legal failure and bankruptcy.

Balance sheet failure tendencies represent a later stage in the failure cycle. They logically follow the "income account failure" and are caused by constantly recurring losses and many other forms of cash drains. The following characteristics revealed through a comparative analysis of balance sheets are indicative of these failure tendencies:

1. Weak cash position
2. Frozen receivables
3. Over-investment in inventory and supplies
4. Over-expansion in fixed assets
5. Inadequate depreciation
6. Excessive advances and investments in subsidiaries and affiliates

7. Frozen bank loans
8. Excessive contingent liabilities
9. Excessive goodwill and organization expense
10. Over-capitalization.

Under this method a particular period such as the fiscal year ended August 31, 1928 for American Type Founders Company has been taken as a base of 100% and all subsequent periods are computed as a percentage of this base. This method, in effect, reduces the changes from year to year to an index-trend basis and tends to emphasize the fluctuations through the subsequent increasing or decreasing size of the percentage figure. Such a method of analysis detects such weaknesses as declining sales volume, increasing costs of goods sold, excessive selling and administrative expenses, unwise payment of dividends, frozen receivables and over-expansion of inventories which inadequate volume and declining profits fail to justify.

A glance at the comparative income accounts of American Type Founders Company on a horizontal percentage trend or index basis (Table 2 and Chart 1) reveals that the Company's sales increased from 1928 to 1929 by about 24%. However, cost of goods sold increased 26½%, while inventories in the same year increased about 35½% and cash declined sharply to 49% of what it had been on August 31, 1928. Certain adverse trends were beginning to make themselves apparent even at this early date. From 1929 on, failure tendencies began to develop rapidly. By 1931, sales had dropped to \$8,794,723 from \$14,782,842 in 1929 or to 74% of what they had been in 1928. Cost of goods sold had declined, but this item was still not under proper control by the management. Selling and administrative expenses in 1931, while having declined somewhat, were still 95% of the 1928 figure, and in 1932 they increased to 108.43% or over \$300,000 in the face of a decline in sales of \$3,500,000! Although net profits for dividends had dropped from \$1,104,242 in 1930 to \$463,132 in 1931, the management still disbursed \$1,000,000 in cash dividends! In 1932 with a loss of \$2,572,900 the Company still paid out dividends of \$319,525. By 1932 net loss after dividends has reached a *minus* 1,113% of 1928.

It is apparent that a number of

income account failure tendencies were evident in this company. Declining sales volume was to be expected in the depression years of 1930 to 1933, particularly in this capital goods equipment field. However, there can be little excuse for the management's failure to control expenses, and dividend withdrawals, particularly in the face of rapidly disappearing sales and profits.

The comparative balance sheet analysis Table 3 and Chart 2 reveals additional failure tendencies. Cash and marketable securities dropped precipitously in the first year of this trend analysis from \$2,627,500 in 1928 to \$1,306,288 in 1929, or to 49.7% of the 1928 base of 100%. By 1933 cash had almost disappeared to only 9.00% of the 1928 base and receivership was inevitable. In 1928 the company had a strong current position of nearly 3 to 1 with no bank loans and a healthy cash position. The next year notes payable of \$1,970,000 appeared and these loans gradually increased to 1933 when they were 121.9% of a 1929 base, there being no notes payable in 1928.

Receivables and inventories also began to "freeze" badly. By 1931 inventories at the end of the year were almost equal to the entire year's sales of \$8,794,723 and in 1932 they actually exceeded sales! Thus, inventories in 1931 were 131.1% of the 1928 base, with sales of only 74.3% of the same base period. By 1931 receivables had reached a total of over \$7,800,000, against sales for the same period of only \$8,794,723, a condition which must have proved most embarrassing to the credit and collection department! This condition proved to be so bad that a drastic write-down was resorted to in 1932. Special adjustments to inventory and for doubtful notes and accounts receivable were made in amounts of \$2,301,938 and \$1,882,995 respectively and the company ended the year with a balance sheet deficit of \$2,940,674.

Notwithstanding drastic changes in management and substantial write-offs in 1932 receivership was inevitable in view of the weakened cash position, heavy bank loans and maturing serial indebtedness. Consequently, a voluntary petition in bankruptcy was filed October 4, 1933 and a successful reorganization was completed in 1935-1936 under Section 77B of the Federal Bankruptcy Act.

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The Business

Thermometer:

NIC Sales of wholesalers advanced 31 per cent in April over the same month a year ago. This gain exceeds any recorded by this series during the previous five years. This increase and the gains in February and March—20 per cent and 26 per cent, respectively—measure the strength of the upward swing. Sales gains of 23,935 independent retail stores amounted to 24 per cent according to another monthly survey of the Bureau of the Census.

In connection with this monthly study conducted jointly by the National Association of Credit Men and the Bureau of the Census, 2,916 wholesalers, representing all parts of the country, reported dollar sales amounting to \$276,608,000 in April, which were 7 per cent above March, 1941. This rise exceeds the seasonal change usually shown between these months by this survey. Sales are shown as reported, without adjustment for seasonal or price fluctuations.

All but one of the 35 lines of trade reported sales during April greater than those in the previous year. Four trades showed gains exceeding 60 per cent, compared with a year ago. These were metals (108%), electrical goods (66%), industrial supplies (65%) and shoes and other footwear (65%). Eighteen other trades showed gains of 20-60 per cent. These increases are continuations of similar experiences during the first quarter of 1941 when 11 lines showed sales gains of more than 20 per cent. Although heavy lines indicated the more pronounced gains, wholesalers of groceries and foods maintained sales levels moderately

higher than a year ago.

The cost value of inventories on hand at the end of April for 1,800 wholesalers was up 1 per cent from the beginning of the month, and was 12 per cent over April 30, 1940. Though accumulation during April was moderate, the increase over a year ago is as large as any previously noted in the past three years. April is the twenty-first consecutive month in which the dollar volume of inventories was at a higher level than in the corresponding month of the year before.

The stock-sales ratio of 148 for April, 1941, was sharply under the figure of 178 for April, 1940. This ratio (148) fell from March, 1941, although such a movement is not a usual occurrence between these two months. Of the 32 trades for which stock-sales ratios are shown, 28 reported ratios for the current month below those of a year ago, indicating sales to be expanding more rapidly than inventories.

Collections on accounts receivable for 2,422 wholesalers were significantly more favorable in April of this year than those reported by these same establishments for April 1940. Collections during April equaled 78 per cent of accounts receivable as of April 1 compared with collection percentages of 73 for April, 1940, and 75 for March, 1941. Reflecting recent expansions in sales volume, accounts receivable were 20 per cent greater on April 1, 1941 than at the same date in 1940, and 6 per cent higher than on March 1, 1941.

Detailed figures are presented in the following tables in summary for the United States.

WHOLESALEERS' accounts receivable and collections, April, 1941

Kind of Business	Number of firms reporting	Collection Percentages*			Accounts Receivable		
		April 1941	April 1940	March 1941	Percent change April 1941 from		As of April 1, 1941 (\$000's)
					April 1940	March 1941	
Automotive supplies	155	65	59	60	+16	+ 5	\$3,996
Chemicals (industrial)	22	81	68	74	+16	+ 1	1,472
Paints and Varnishes	65	60	56	56	+23	+12	4,140
Clothing and Furnishings, except shoes	43	57	51	51	+ 8	+ 5	3,856
Shoes and other footwear	29	55	47	59	+15	+13	13,826
Coal	10	74	74	77	+48	+ 9	1,713
Drugs and sundries (liquor excluded)	116	65	65	67	+ 9	+ 2	24,686
Dry goods	97	50	45	47	+11	+ 4	31,172
Electrical goods	317	82	75	78	+48	+ 5	37,357
Dairy and poultry products	13	145	155	168	+15	+15	546
Fresh fruits and vegetables	54	151	144	141	+ 2	+12	875
Farm supplies	7	106	106	115	+10	+84	1,093
Furniture and house furnishings	59	54	50	64	+21	+18	9,774
Groceries and foods, except farm products	505	104	98	101	+ 8	+ 5	42,360
Full-line wholesalers	232	95	91	94	+ 8	+ 5	16,005
Voluntary-group wholesalers	158	102	95	99	+ 9	+ 3	15,439
Retailer-cooperative warehouses	21	170	173	165	+25	+ 5	1,990
Specialty lines	94	107	99	103	+ 5	+ 6	8,926
Confectionery	13	73	71	70	+11	-**	322
Meats and meat products	79	178	170	160	+19	+ 6	11,946
Beer	15	83	86	76	+ 2	+ 6	89
Wines and liquors	24	82	88	82	+21	+ 8	4,182
Liquor department of other trades	34	76	79	78	+28	+ 1	4,886
Total hardware group	358	62	55	58	+27	+ 7	50,875
General hardware	131	57	52	51	+21	+ 8	34,225
Industrial supplies	114	79	69	79	+42	+ 7	8,892
Plumbing and heating supplies	113	62	57	63	+45	+ 2	7,758
Jewelry	29	20	18	21	+21	+ 6	4,614
Optical goods	21	66	61	63	+16	+ 2	333
Lumber and building materials	37	75	66	75	+30	+17	3,951
Machinery, equipment and supplies, except electrical	54	65	63	65	+36	-**	4,873
Surgical equipment and supplies	25	52	48	48	+ 7	- 1	1,298
Metals	27	99	84	101	+77	+ 9	4,489
Paper and its products	84	63	60	59	+13	+ 5	9,269
Petroleum	8	136	125	134	+ 9	+17	970
Tobacco and its products	93	112	116	110	+ 9	+ 3	6,128
Leather and shoe findings	7	57	44	43	- 5	- 1	145
Miscellaneous	22	91	77	86	+ 7	+ 7	3,000
United States	2,422	78	73	75	+20	+ 6	\$278,236

*Collection percentages are obtained by dividing the collections by accounts receivable for an identical group of firms.

**Less than 0.5 percent.

WHOLESALEERS' sales and inventories, April, 1941

Kind of Business	Sales—Current Month				Inventory End of Month (At Cost)				Stock-Sales Ratios*		
	Number of firms reporting sales	Percent Change April 1941 from		April 1941 (000's)	Number of firms reporting stocks	Percent Change April 1941 from		April 1941 (000's)	April 1941	April 1940	March 1941
		April 1940	March 1941			April 1940	March 1941				
Automotive supplies.....	210	+25	+13	\$4,675	99	+10	+ 3	\$4,860	222	253	245
Chemicals (industrial).....	22	+38	+18	1,348	14	+27	+ 3	894	90	98	102
Paints and varnishes.....	67	+27	+15	2,911	16	+ 7	- 5	1,052	154	181	212
Clothing and furnishings, except shoes.....	46	+55	- 1	2,500	24	- 7	+ 4	1,088	147	235	133
Shoes and other footwear.....	31	+65	+ 9	14,593	22	-12	-14	6,095	79	138	93
Coal.....	12	-34	-65	631	†	†	†	†	†	†	†
Drugs and sundries (liquor excluded).....	132	+13	- 2	19,436	99	+ 3	+ 1	26,816	185	204	178
Dry goods.....	110	+37	+ 7	12,853	60	+ 6	+ 4	18,578	237	295	239
Electrical goods.....	345	+66	+12	36,149	206	+33	+ 5	31,695	93	118	99
Dairy and poultry products.....	16	+10	+ 1	1,026	7	+16	+25	96	44	43	36
Fresh fruits and vegetables.....	73	+ 6	+14	3,632	49	+13	- 1	533	31	31	33
Farm supplies.....	10	+ 8	- 1	1,318	†	†	†	†	†	†	†
Furniture and house furnishings.....	69	+34	+ 8	6,945	42	+ 4	+ 2	9,707	194	246	203
Groceries and foods, except farm products.....	660	+16	+ 3	55,895	404	+12	- 1	52,923	156	161	159
Full-line wholesalers#.....	334	+14	+ 1	21,688	192	+14	+ 1	22,096	164	166	164
Voluntary-group wholesalers.....	186	+14	+ 1	19,115	131	+10	- 1	21,124	189	194	192
Retailer-cooperative warehouses.....	26	+17	- 1	3,700	13	+ 9	- 3	2,789	120	128	122
Specialty lines.....	114	+25	+12	11,392	68	+10	+ 2	6,914	99	107	106
Confectionery.....	21	+ 7	- 3	338	12	+27	- 2	233	105	92	100
Meats and meat products.....	91	+22	+15	21,819	65	+27	+ 2	6,465	63	63	68
Beer.....	34	+11	+18	369	24	+20	+13	106	41	38	44
Wines and liquors.....	28	+25	+11	4,351	21	+ 9	- 3	6,164	164	187	191
Liquor department of other trades//.....	43	+36	+ 6	4,559	38	+ 4	+ 1	7,723	180	238	191
Total hardware group.....	383	+45	+14	39,344	245	+18	+ 2	62,121	226	278	254
General hardware.....	143	+37	+17	24,896	91	+17	+ 2	47,079	252	298	263
Industrial supplies.....	126	+65	+ 7	8,725	86	+18	+ 3	9,552	173	245	177
Plumbing and heating supplies.....	114	+55	+13	5,723	68	+33	+ 3	5,090	164	198	183
Jewelry.....	36	+54	+ 8	1,832	24	+ 7	- 1	3,372	254	367	275
Optical goods.....	24	+21	+ 7	279	12	+11	+ 4	167	135	150	140
Lumber and building materials.....	38	+55	+32	3,771	26	+15	- 3	2,664	87	120	116
Machinery, equipment and supplies, except electrical.....	62	+44	- 4	3,890	38	+12	+ 2	4,907	187	247	181
Surgical equipment and supplies.....	26	+10	- 3	698	16	+ 7	+ 2	928	173	186	162
Metals.....	29	+108	+ 4	4,699	17	+ 7	- 4	4,213	114	219	121
Paper and its products.....	97	+21	+ 8	6,926	46	+ 1	+ 3	4,818	150	175	155
Petroleum.....	10	+22	+ 5	1,373	8	-12	- 4	687	50	70	55
Tobacco and its products.....	156	+ 8	+ 8	13,738	50	+ 2	- 1	1,961	53	56	59
Leather and shoe findings.....	9	+10	+27	179	†	†	†	†	†	†	†
Miscellaneous.....	26	+27	+ 6	4,531	26	- 3	+ 1	5,824	145	186	138
United States.....	2,916	+31	+ 7	\$276,608	1,800	+12	+ 1	\$266,780	148	178	157

*These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms. Insufficient data to show separately. ⁴Not affiliated with voluntary or cooperative groups.

(Not affiliated with voluntary or cooperative groups)

18 18 25

: Less than 0.5 percent.

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